EUROPE'S BUSINESS NEWSPAPER
FINANCIAL TIMES
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Leading Iran out of quarantine
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World News

Rail strike threatens travel chaos in Britain

Britain is facing travel disruption today after British Rail lost its bid to ban a 24-hour national strike by the National Union of Railwaymen, which threatens chaos throughout the country, particularly in London, where London Underground drivers are also striking. Page 11

North delay
Sentencing of former Marine Lieutenant Colonel Oliver North on his conviction for three charges resulting from the Iran/Contra affair has been postponed until July 5.

Greek deadlock
Christos Sartzetakis, the Greek President, set in motion the constitutional procedure for resolving the political deadlock resulting from inconclusive general elections. Page 26

Shamir criticised
Jewish settlers in the West Bank angrily criticised Israeli Prime Minister Yitzhak Shamir at the funeral of a murdered settler. Page 8

Arms differences
Richard Burt, US negotiator at the Geneva arms talks, said differences still divided the US and Soviet Union. Page 2

Alliance plan
Socialists and Christian Democrats plan talks aimed at creating an alliance that could dominate the newly-elected European Parliament.

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Charges were dropped against Jose Maria Ruiz Mateos, the former Spanish tycoon who won a seat in the European Parliament while a fugitive from justice. Page 2

Mitterrand claim
President François Mitterrand said France's 1789 Revolution inspired China's pro-democracy movement, crushed by tanks in central Peking.

US defence change
The US Defence Department will abandon Reagan Administration policy requiring defence contractors to help finance expensive weapons systems. Page 10

ANC call
Oliver Tambo, leader of the African National Congress, said negotiations with South Africa depended on an end to the state of emergency and political bans. Page 8

Sri Lanka threat
Sri Lanka will make an approach to the UN if India does not start withdrawing its troops by July 30. Page 8

Yugoslav turmoil
Turmoil in Yugoslav politics may worsen with an announcement by the Slovene party leadership that it would consider withdrawing from the Federation. Page 3

Marcinkus to leave
Archbishop Paul Marcinkus, head of the Istituto per le Opere di Religione, Vatican bank, is expected to leave his post on July 18. Page 2

Argentine fears
Fears are growing that Argentina may soon face a resumption of last December's army rebellion, as officers and troops are showing signs of impatience with the army leadership. Page 10

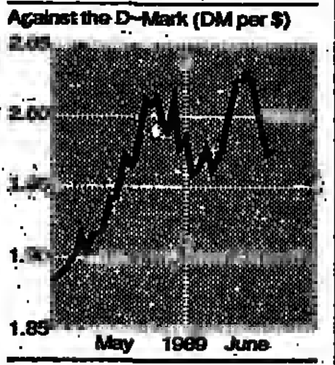
Business Summary

Rolls-Royce wins $616m engine order from TWA

ROLLS-ROYCE, UK aircraft engine manufacturer, has won an order from Trans World Airlines, US carrier, worth an estimated $616m. Page 12

US Administration officials fear the appreciating dollar

Dollar
Against the D-Mark (DM per $)



may dash hopes of achieving a substantial reduction in the trade deficit. Page 26

SIEMENS, West German electronics group, agreed to pay Britain royalties on sales of its nuclear magnetic resonance equipment for medical diagnosis. Page 11

NEW YORK'S position as the world capital of financial services is under threat as reduced profitability and competition forces companies to reconsider staying in the high cost city. Page 26

EURO Disneyland, Walt Disney theme park being built near Paris, is likely to valued at $1.7bn in a share offer this autumn. Page 32

PIAGGIO group, Italian scooter manufacturer, has joined forces with West Germany's Kolbenschmid in a components joint venture in Italy and France. Page 29

HOOKER Corporation, diversified Australian property group, saw shares fall to a new five-year low after admissions of serious liquidity problems. Page 28

STET, Italian telecommunications company, is paying $20.1m to buy 40 per cent of GE Information Services (GEIS), the Italian network subsidiary of General Electric (US). Page 29

BANGKOK'S rapid transit rail system is the subject of negotiations to resolve difficulties over the financing arrangements for the $1.6bn "sky-train." Page 7

BOSCH of West Germany and Nippondenso of Japan, two of the world's largest automotive components suppliers, are negotiating a joint venture in the US. Page 28

SEMATECH, US government backed semiconductor consortium, has held talks with European chip makers to define areas of common interest. Page 9

EUROPEAN Community governments are coming under fresh pressure to scrap import controls on Japanese cars. Page 4

AUSTRIA will reduce its tariffs on more than 1,600 import items by up to 50 per cent from January next year. Page 9

SOCIETE Générale de Belgique, Belgian holding company, announced it will price the public sale of 7m of its shares at $72 each. Page 29

FRENCH consumer prices rose 0.4 per cent in May, taking the country's annual inflation rate to 3.7 per cent. Page 2

BRITISH economic growth slowed sharply in the first quarter of [illegible] Page 12

INDIA has decided to establish three more oil refineries in the next decade in addition to three under construction. Page 8

Thatcher faces pressure from ministers over Europe

By Philip Stephens, Political Editor, in London

MRS Margaret Thatcher, the British Prime Minister, is facing pressure from senior ministers to avoid a clash at next week's European Community summit in Madrid by dropping her opposition to the first stage of plans for closer economic and monetary integration.

Sir Geoffrey Howe, the Foreign Secretary, and Mr Nigel Lawson, the Chancellor of the Exchequer, are thought to believe that without such a commitment Britain risks being isolated when France takes over the EC presidency at the beginning of July.

That concern, shared by a number of senior Conservative MPs, has been heightened by the Government's heavy losses in last week's elections to the European Parliament, which, it is feared, will weaken its position in Madrid.

Mrs Thatcher, however, is reluctant to commit Britain to any part of the three-stage move to full economic and monetary union contained in the report by the Delors committee of European central bankers. The report, along with a European Commission proposal for a new Community-wide social charter, will be the central item on the Madrid agenda.

Officials were yesterday playing down the suggestion that the Prime Minister faces a new row within the Cabinet over Europe, emphasising that discussions so far had focused on tactics rather than fundamental issues.

The latest pressure, however, appears again to underline the basic disagreement between Mrs Thatcher and her two most senior ministers on eventual membership of the European Monetary System's exchange rate mechanism.

Despite a recent truce over exchange rate policy, Mrs Thatcher has made clear that she does not want to be "bounced" by them into any agreement which would intensify pressure on her to take sterling into the EMS once Britain's inflation is brought under control.

Acceptance of the first stage would imply a much firmer commitment by the Government to take up full membership of the EMS, perhaps immediately after other Community countries remove their remaining exchange controls in mid-1990.

But Mrs Thatcher sees little prospect of Britain joining during the lifetime of the present parliament, which could run until mid-1992.

Last week she also underlined her concern that by agreeing to implementation of the first stage of the Delors report – concerned mainly with strengthening the EMS – Britain might find itself locked into the much more radical proposals for monetary union in stages two and three.

France and West Germany have made clear that they are determined to press ahead with a programme to secure full economic and monetary union. Mr Felipe Gonzales, the Spanish Prime Minister, hinted on Monday that the summit might have to adopt a majority voting procedure if Britain continued to block moves towards closer integration.

Delors wins support, Page 11

Three European airlines join in collaboration pact

By Michael Donne in London, Laura Raun in Amsterdam and David Buchan in Brussels

THREE leading European airlines – British Airways, KLM of The Netherlands and Sabena of Belgium – have agreed in principle on a financial link up that will create a significant force in the industry.

Precise areas of collaboration under the operating and marketing pact have yet to be agreed, it was stressed yesterday.

However, it is understood that they could include joint long-haul international operations, future fleet re-equipment, flight crew and other training, and aircraft maintenance.

On the financial front, the deal will see BA and KLM each taking 20 per cent in a new Belgian airline company. The three airlines will remain independent and autonomous, continuing their own activities and even competing in some instances.

However, they will also collaborate in certain areas and benefit from the creation of a common pool of experience.

The core of the arrangement is Sabena, the Belgian Government-owned airline company, which is being restructured with increased capital.

Although both BA and KLM will each have a 20 per cent stake, the Belgian Government will hold the remaining 60 per cent and thus continue to control the airline.

A new subsidiary, Sabena World Airlines, will be set up to conduct the airline operations.

Full legal and financial details of the deal have still to be worked out, with the aim of becoming effective from around January 1.

The basic principle, however, outlined in Brussels yesterday by Mr Carlos van Rafelghem, chairman of Sabena, has been agreed between the three airlines and the Belgian Government.

Approval is necessary from the European Commission, which needs to be convinced by the three EC airlines that their link is not anti-competitive for other Community airlines.

Mr van Rafelghem stressed that the three airlines' plans would be "entirely compatible" with EC competition law.

The Commission is expected to scrutinise the deal closely. While it generally favours "cross-border" links within the Community, particularly among small to medium-size airlines, the large sizes of both BA and KLM may give Brussels pause for thought.

The Commission is expected particularly to study how the three airlines' route networks, and principal airport operations, overlap, and to what extent the arrangement might reduce intra-EC airline competition.

Mr van Rafelghem stressed that the objective was to improve the competitive positions of all three European airlines which have sought to improve their own positions in the EC with the advent of the 1992 single European market in mind.

Sabena itself has suffered from generally weak profitability and this has been one of its particular reasons for seeking a leading international partner in recent years.

The agreement would give BA another "hub" at Brussels international airport, just when Britain's airports are becoming increasingly congested.

KLM Royal Dutch Airlines, which is 39 per cent owned by the Dutch Government, said its stake in the new Sabena venture was designed to strengthen its European and intercontinental networks.

The deal follows KLM's participation in the international consortium, led by Mr Alfred Checchi, a Los Angeles investor, whose $3.65bn offer for NWA has been accepted by the US airline.

KLM has been seeking international partners to fend off increasing international competition, especially from the big US carriers and rapidly expanding Asian airlines.

At the same time, KLM's financial position has been under some pressure.

Soviet oil town under curfew after three die in youth riots

By Quentin Peel in Moscow

A DUSK-TO-DAWN curfew has been imposed on the Soviet Central Asian oil town of Novy Uzen, after riots and looting by gangs of youths left three dead and more than 50 injured, a senior Soviet official said yesterday.

Some 700 migrant workers and their families have been evacuated from the town, a desolate new settlement built to service the oil industry in the republic of Kazakhstan, close to the eastern shore of the Caspian Sea.

However, an official Tass news agency report last night said that the situation was still not under control, with "unauthorised demonstrations and meetings, and clashes between warring groups of hoodlums" continuing.

Lt-Gen Grigory Knyazev, the Kazakhstan Interior Minister, had been appointed "commandant of the city," according to Tass, suggesting that something approaching martial law had been imposed by Interior Ministry troops.

First clear suggestions of ethnic conflict in the riots were given yesterday by the Soviet authorities, who said that the gangs of youths had been chanting slogans against migrant workers from the Trans-Caucasus, on the far side of the Caspian.

However, the disturbances also appear to have clear elements of food riots, with major complaints cited as food rationing and high prices.

The main source of oil industry workers in the town has been Azerbaijan, because

Continued on Page 26

Soviet Union in turmoil says Sakharov

By Robert Mauthner in London

DR Andrei Sakharov, the Soviet Nobel Peace Prizewinner, yesterday painted a catastrophic picture of the present economic and political state of the Soviet Union and warned that a fascist military coup could not be excluded if its problems were not solved.

Dr Sakharov, who will receive an honorary doctorate from Oxford University today, told a packed audience at the Royal Institute of International Affairs in London that the Soviet Union and the whole socialist world had reached a crossroads. It was not yet clear whether it would take a right (conservative) or left (progressive) direction.

The Soviet physicist, who spent many years under house arrest in the Soviet Union because of his dissident views, was particularly scathing about the economic situation in his country. He urged western countries not to make any offers of economic and financial aid to Moscow until fundamental reforms had been implemented. "Any help given now would be lost; it would be like pouring it into the sand," he said. Indeed, it could be counter-productive because it would prevent the necessary economic reforms from being implemented.

Nor was Dr Sakharov very complimentary about Mr Mikhail Gorbachev, the Soviet President, who, he said had been elected to his post by "undemocratic processes." On the basis of what he had done so far, one could not have a definite opinion of Mr Gorbachev. However, Dr Sakharov praised Mr Gorbachev for being the initiator of perestroika (restructuring) and glasnost (openness) and conceded that he could not see any alternative to the Soviet leader for the moment.

"The West appears to set great store by the authorities in the Soviet Union, but it underestimates the enormous problems with which they are faced," Dr Sakharov said. The recent elections to, and subsequent meeting of, the Congress of Peoples' Deputies had revealed the real picture of the country and the suffering and privations of the Soviet people over the past 72 years.

The recent deterioration on the economic front had been "terrible." There was too much money chasing too few goods, particularly consumer goods, of which there was a greater shortage than only a few years ago. There was no real competition between producers and traders of goods and little or nothing had been done to reform the state-controlled agricultural sector, which favoured bad producers and penalised efficient ones.

Turning to the recent unrest in various Soviet Republics, such as Armenia, Georgia and Uzbekistan, Dr Sakharov said the conflict between the nationalities in the Soviet Union had created a dangerously tense situation. The Soviet Union was "the last imperial and colonial empire, full of deep national contradictions."

His solution was a renegotiation of the Soviet constitution in the direction of a looser structure: Soviet Republics would be linked by treaties.

Japan suspends $5.5bn aid package to China

By Our Foreign Staff

JAPAN, in a move which may signal a tougher policy towards the leadership in Peking, yesterday announced it was suspending a $5.5bn aid programme because of doubts on whether it would be "proper" to proceed with the five-year loan following China's military crackdown on pro-democracy dissidents.

Mr Taizo Watanabe, spokesman for Japan's Foreign Ministry, denied any political intent in the suspension of the loan, which was to begin next April, but added:

"Even after confirming the physical stability [in China] and a [Chinese] willingness to go ahead with business, we still have to make up our minds as to whether it is proper for us to [resume aid activities]."

For fear of upsetting Peking, Japan has not been happy about expectations that it would apply some kind of sanctions to China following Peking's military crackdown. In a veiled reference to the Sino-Japanese war of the 1930s and 1940s, Mr Sosuke Uno, the Japanese Prime Minister, said on June 8 that Japan's relations with China were "different" from those of Europe or the US because of "recent history".

The Japanese Government had earlier denied that it intended to impose sanctions.

However, in making yesterday's announcement, Mr Watanabe reiterated the official condemnation of China's violent suppression of the student demonstrations as "unpardonable" and the subsequent crackdown on dissidents as "incompatible" with the democratic values held by Japan.

The Japanese Government has attributed the freeze on current aid only to logistical problems and difficulties in implementing procedures as a result of the weeks of disturbance in China. Aid missions have been postponed and thousands of Japanese residents evacuated after the slaughter in and around Tiananmen Square. Mr Watanabe confirmed that of 116 Japanese members of aid-related international organisations, only seven remained in Peking.

This year Japan is due to complete a seven-year aid programme for China worth $3.29bn. The agreement was signed last August during the visit to Peking by Mr Noboru Takeshita, the Japanese Premier at the time.

The World Bank decided on Monday to postpone consideration of a $230m loan while it reviews whether the turmoil will jeopardise the viability of bank-financed projects. Last week the Bank decided to reschedule a $60m loan that was to be used to finance an agriculture project in Jiangxi province, central China.

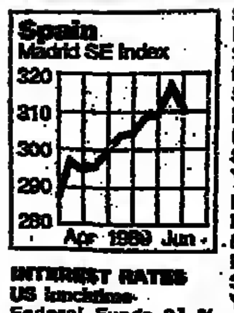
The US and the UK have frozen sales of military hardware and technology to China.

● The US has formally urged Chinese leaders to show clemency to individuals sentenced to death for their part in the recent unrest and to halt the wave of mass arrests, the White House said yesterday.

At the United Nations, Secretary General Javier Perez de Cuellar made a similar appeal.

MARKETS

Spain
Madrid SE Index



INTEREST RATES
US lunchtime
Federal Funds 9⅜% (9⅞)
3-mth Treasury Bills: yield: 8.437% (8.44)
Long Bond: 108⅛ (105⅞)
yield: 8.292% (8.34)
London
3-month interbank: close 14⅛% (14)

STERLING
New York close
$1.5385 (1.5425)
London:
$1.5495 (1.549)
DM3.065 (3.055)
FFr10.4 (10.37)
SFr2.65 (2.64)
Y223.25 (223.75)

DOLLAR
New York close
DM1.9875 (1.979)
FFr6.738 (6.7055)
SFr1.7215 (1.706)
Y144.9 (144.85)
London:
DM1.978 (1.973)
FFr6.7125 (6.695)
SFr1.71 (1.705)
Y144.05 (144.4)

GOLD
New York latest
Comex Aug
$369.6 (370.6)

STOCK INDICES
New York close
Dow Jones Ind. Av.
2,47[illegible] (-7.01)
S&P Comp
321.36 (321.89)
London
FT-SE
2,164.8 ([illegible] 10.1)
World:
139.86 (Mon)
Tokyo
Nikkei Ave
33,233.47 (+220.29)
Frankfurt
Commerzbank
1,837.9 (+29.4)

OIL
Brent 15-day (Argus)
$16.625 (+0.1) (July)
West Tex Crude
$19.055 (+0.33) (Aug)

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The literary rebirth of Alexander Solzhenitsyn

For 20 years, Alexander Solzhenitsyn's novels of spiritual survival and communist oppression have been too ideologically pointed for publication in the Soviet Union. That has ended with the republication of Matryonin's House
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Arms talks split over SDI, warns US negotiator

By William Dullforce in Geneva

A FUNDAMENTAL difference persists between the US and the Soviet Union over nuclear arms control, Mr Richard Burt, the new chief US negotiator, made clear yesterday.

Under its Strategic Defence Initiative (SDI) the US would continue to research, develop and test space defences in full compliance with the 1972 anti-ballistic missile (ABM) treaty, he said. And it would retain options to deploy the defences when they were ready.

Mr Yuri Nazarkin, the new Soviet chief negotiator in the talks which resumed this week, said on Tuesday his number one issue was to reach understanding on the link between the reductions in long-range nuclear arsenals and the ABM treaty, which Moscow says strictly limits defence against ballistic missiles.

"We see no such linkage," Mr Burt told reporters. The US did not think that a strategic arms reduction treaty (Start) should be held hostage to an agreement on space defence. President George Bush had decided that the SDI goals and the US approach in the talks on defence in space were sound and would remain unchanged.

The US would introduce soon the new proposals for verifying compliance with a Start agreement and enhancing strategic stability mentioned by President George Bush on Tuesday, Mr Burt said. It would be "extremely helpful" if the two sides could agree on these measures early on and start implementing them. This would help build support for ratification of a treaty within the US Senate.

Mr Hans-Dietrich Genscher, the West German Foreign Minister, has made his strongest statement to date against a decision by Nato to "modernise" ageing short-range Lance US nuclear missiles in 1992, writes David Marsh in Bonn.

In an interview with the Sueddeutsche Zeitung, published today, Mr Genscher says Nato's decision in three years' time on whether to bring in new missiles by the mid-1990s would depend upon the overall security position in Europe by that time. But he stressed that West Germany would do "everything within our means" between now and 1992 to try to avoid the necessity for modernisation.

Mr Genscher's forthright remarks come as a reminder of the delicacy of the compromise on the Lance question at the Nato summit last month.

The Bush administration evidently wants a tight verification mechanism to have been tested and put in place before a treaty is signed. Mr Burt implied that the US was not satisfied with the verification system included in the 1987 intermediate-range nuclear forces (INF) treaty. He pointed out that the teams monitoring progress in the elimination of INF missiles had had to negotiate modifications. The US had been "getting good INF experience" but this was insufficient on its own for a much more complicated Start treaty. After "seeing the lie of the land" over the next six weeks or so, negotiators would take a recess to analyse results in their capitals, Mr Burt said.

Opposition to European fighter project gathers strength

By David Goodhart in Bonn

A GROWING body of opinion in the British and West German Defence Ministries believes that the four-nation European Fighter Aircraft (EFA) will be cancelled before it reaches production largely because of German opposition.

The new generation aircraft being developed by the UK, West Germany, Italy and Spain, is due to cost about £21bn and should go into service in 1996. Problems with the project have recently been highlighted by the unresolved argument over the radar order – Britain, Spain and Italy support a new system developed by Ferranti; West Germany prefers the model developed by AEG.

Officials still believe the dispute will be resolved in favour of the Ferranti system despite an energetic rearguard action within the Bonn Defence Ministry. However, while the radar dispute has been edging towards resolution "darker clouds have been assembling on the horizon," according to one official.

The EFA project has always had most grudging support from West Germany and the DM6bn (£2bn) bill for its share of development costs only just scraped through the Bundestag in 1987 in the face of opposition from the Social Democrats and the junior coalition partner, the Free Democrats.

Opposition has now spread to parts of the ruling Christian Democratic party and when the Bundestag's Budget Authorisation Committee recently had to approve a *slight increase in EFA development costs because of a miscalculation in the original sums*, Mr Bernhard Friedmann, the CDU chairman, warned that he could not guarantee coalition support for any further demands for money.

Opposition has also grown more vocal within the Defence Ministry where one group argues that the country's first priority must be to strengthen its land forces. The Bundeswehr is facing increasing equipment and recruitment problems.

It is also thought that fast progress in the Vienna conventional arms talks with the Warsaw Pact might put the EFA in jeopardy. Although defence analysts argue that the four countries would still need some air defence fighter to replace the existing generation opinion might be pushed further against a model as expensive and sophisticated as the EFA at a time of international disarmament.

All parties to the deal are now locked into the development stage (costing about £5bn) which should produce a prototype by 1992. The next test of resolve comes at the end of 1991 with the start of the production investment stage. If West Germany were to pull out then or before, the other partners would be very unlikely to continue.

The election of a Social Democrat Government in December 1990, or any Social Democrat participation in government, would also almost certainly spell the end of the project despite the SPD's about-turn in accepting the Tornado when it came into government at the end of the 1960s.

Turks likely to be on Zhivkov talks agenda

By Judy Dempsey in Vienna

MR Todor Zhivkov, the Bulgarian leader, will visit Moscow on Friday, fuelling speculation that the exodus of Bulgaria's ethnic Turks will be high on the agenda in talks with Mr Mikhail Gorbachev, the Soviet leader.

In the past month, some 30,000 ethnic Turks have left Bulgaria for Turkey. Many told reporters they were deported.

However, foreign ministry officials in Sofia continue to insist that "Turkish-speaking Bulgarian citizens" are not being forced to leave.

● An open letter calling on the UN to use all means possible to halt the expulsion of its ethnic Turkish minority by Bulgaria was sent yesterday to Mr Javier Perez de Cuellar, the UN Secretary-General, by Mr Mesut Yilmaz, the Turkish *Foreign Minister*.

The numbers of ethnic Turks to have crossed the border since late May reached around 45,000 yesterday.

Judge drops charges against Ruiz Mateos

By Tom Burns in Madrid

Jose Maria Ruiz Mateos emerges into public gaze yesterday, promising "no more clowning about"

A SPANISH judge yesterday dropped the charges against Mr Jose Maria Ruiz Mateos, the former tycoon who won a seat in the European Parliament while a fugitive from justice. The newly-elected MEP later told a news conference that he would henceforth refrain from assaulting members of the Socialist administration.

Mr Ruiz Mateos achieved wide television coverage on the day the European election campaign opened when he attacked Mr Miguel Boyer, the former Economy Minister who ordered the expropriation of his Rumasa industrial holding in 1983.

After the incident Mr Ruiz Mateos went into hiding but, as he played cat and mouse with the police, he managed to run an effective electoral campaign against the Government that earned him more than 600,000 votes last week and a seat in the Strasbourg assembly.

The judge declared Mr Ruiz Mateos a free man yesterday on account of his immunity as an MEP but the possibility remains that the Spanish Government will petition Strasbourg to have him appear before the Spanish Supreme Court.

In addition to the assault charge, Mr Ruiz Mateos has still to face charges of severe business malpractice in connection with the Rumasa holding that he founded.

A jubilant Mr Ruiz Mateos appeared before the press to say that from now on, as an MEP, he would "deal out documents instead of punches" and that he would defend the interests of the Spanish public in Strasbourg with the same drive that he had defended those of his erstwhile holding.

The eccentric tycoon escaped from prison and jumped bail several times after being extradited to Spain three years ago. Many regard him as a folk hero.

He said that after the confidence that voters had placed in his hastily organised electoral ticket he would no longer "use disguises" and that there would be no more "pranks and clowning about".

Swedish tax reform plan announced

By Robert Taylor in Stockholm

A WIDE range of goods and services will be taxed in Sweden at the rate of 23.46 per cent from January 1991, under tax reform proposals announced yesterday by an all-party parliamentary committee.

It is estimated that the net increase in Sweden's indirect taxes will bring SKr17.6bn (£1.7bn) to the Ministry of Finance, which will recoup some of the losses incurred by the proposals to abolish central government income tax on all but the highest paid.

The package is expected to add 3.5 per cent to the price index, compared with the 4 per cent increase in disposable income expected from the parallel income tax cuts.

The committee's proposals, which have been presented to the Finance Ministry, will mean more expensive cinema, theatre and sports tickets, newspapers, television licences, petrol and holidays.

Indirect taxes on refuse collection and real estate services will be increased substantially, affecting rent levels. They will also be applied to personal services like hairdressing and legal and financial services.

The plan also involves, however, a reduction in some indirect taxes as well as a commitment to no levy on areas like health care, education, medical services and the post.

The committee report argues that "the distributional effects of the proposed charges are negligible. The indirect taxes are proportional or very slightly regressive in relation to disposable income and are also largely neutral across socio-economic groups."

The committee was not unanimous on the indirect tax proposals, and the ruling Social Democrats may have difficulty securing a parliamentary majority for some of them.

The next stage is in the autumn when the Finance Ministry begins to formulate the final tax reform package.

French inflation rises to 3.7% on higher oil prices

By George Graham in Paris

FRENCH CONSUMER prices rose by 0.4 per cent in May, taking the country's annual inflation rate to 3.7 per cent, according to provisional figures released yesterday by Insee, the state statistical office.

Finance ministry officials said the increase, like the sharp price rise in April, was partly accounted for by the impact of higher oil prices early in the month. Without the effect of oil-related products France's annual inflation rate stood at 3.2 per cent – the same as in December.

Price rises so far this year have, however, already triggered an automatic increase in France's minimum wage, and some economists fear pressure for higher wages could now start to mount.

Oil prices are expected to contribute to a slowdown in inflation in the next three months, but car prices may counter this. Peugeot has announced an increase of 2.25 per cent from July 1, Citroen one of 2.2 per cent and Renault one of 1.8 per cent. All three raised prices by 1.8 per cent at the beginning of the year.

French inflation, however, is still slower than that of any of the country's major trading partners with the exception of West Germany, the Netherlands and Japan.

Marcinkus expected to leave Vatican bank post

By Alan Friedman in Milan

ARCHBISHOP Paul Marcinkus, *the controversial 67-year-old* head of the Istituto per le Opere di Religione (IOR), the Vatican bank, is expected to leave his post on July 18, when the IOR's newly appointed five-member supervisory board meets to make new executive appointments.

The five lay members of the board were named yesterday by a working group of cardinals charged with dealing with the Holy See's economic affairs.

The new committee consists of Professor Angelo Caloia, *chairman of Mediocredito Lombardo*, a Northern Italian medium-term corporate finance bank; Mr Philippe de Weck, former president of UBS, one of the leading Swiss banks; Mr Thomas Pietzcker, a director of Deutsche Bank; Mr Thomas Macioce, a new York businessman and consultant to Cardinal John Joseph O'Connor; and Prof Jose' Sanchez Asiain, president of Banco Bilbao-Vizcaya.

It was decided in March to reorganise running of the IOR.

FINANCIAL TIMES

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Tom Jones: been saying good morning for 16 years

All too blinking quiet on the Eastern Front

By David Marsh

THE British Army Gazelle helicopter skims across northern Germany at 120 feet, skirting woods, swimming pools, lignite works and graveyards. Sending horses and cows scampering on the meadows below, the machine homes in over the rape seed fields on the wire fence dividing the East and West German states.

This is one place where there is no sign of Glasnost.

Mr Tom Jones, a puckish 64-year-old Liverpudlian, has been patrolling the northern section of the border for 16 years. An incongruous relic of the Allies' post-war control of Germany, he is head of the four-man British Frontier Service. They are a team of border Sherpas, whose job is to keep the British Army of the Rhine informed of developments along the glacial frontier.

The helicopter heading out from the town of Helmstedt whirs down neatly a few yards westwards from the row of East German border markers. A well-practised ritual gets under way.

"Why don't you say good morning?" Mr Jones calls across in his Mersey lilt, half-ingratiating, half-intimidating, to two grey-uniformed East German soldiers. Drawn by our radar signal picked up at the nearby control post, they arrive, as if by a conjuring trick, on the other side.

"I've been saying good morning to you for 16 years," shouts Mr Jones. "I don't want to talk about politics. I don't want to talk about the border. I just want you to say good morning."

The two members of East Germany's 47,000-strong border force remain tight-lipped. They are too well-trained even to scowl. Instead, they brandish smart-looking cameras and start snapping the small contingent of British soldiers. The British take out what seem to be identical cameras and point them back.

"They're photographing each other," says Tom Jones. "Ridiculous, isn't it?"

On official inspection tours such as this, Mr Jones dons a peaked white naval officer's hat. The first director of the Frontier Control Service, set up in 1946 with a staff of about 300, was a naval captain in charge of operations such as mine-sweeping. The service's operations have dwindled, but the uniform has remained in force. Mr Jones has promised his hat to a small boy.

Mr Jones arrived in Normandy with the British Army two days after D-Day in 1944, and fought his way to the Elbe in 1945. He has spent 40 years in Germany, including a long spell in the military police.

He will now become a Chelsea pensioner at the 300-year-old Military Hospital in London. For a man used to scanning East German watch-towers and hovering within eye-ball range of Soviet Hind helicopters, it is a prospect which fills him with less than complete enthusiasm.

His lanky figure squeezed back in the Gazelle, Mr Jones keeps up a running recital of frontier-lore. He points out the electrified fences, the vehicle obstacles and the alarm systems on the eastern side of the long gash cutting through the landscape.

In spite of the near-perfection of the barriers, a few more escapes have taken place lately. Mr Jones counts three families in the last three months. In the last one, the father was miraculously able to throw his three children, aged seven, eight and 11, over the fence.

But he adds: "Gorbachev has not made any difference here. The people in the border area say nothing has changed. What you are looking at is a scar going through the country."

We fly near a village on the East German side, Hoetensleben, entirely fenced off from the rest of the world.

Here is a bridge over a culvert over which a defector crossed, there an East German power station which used to deliver electricity to the West. "They cut off the cables with shears," says Mr Jones with dry humour. "Maybe they couldn't find the switch."

Mr Jones sometimes shows the strain. Dwelling on the East German soldiers – ordinary East German lads who, but for geography, could be in the Bundeswehr – he confides: "I can't stand them."

After 16 years, Mr Jones sometimes has the sneaking wish to stray for a few minutes in his Gazelle over to the eastern side of the East-West line. Tom Jones has just a few months left to say his farewells. The border will stay a lot longer.

European Diary

West Germany

Slovenes hint at quitting federation

By Judy Dempsey in Vienna

YUGOSLAVIA'S political turmoil has taken a new twist after leaders of the Slovene party said they would consider withdrawing from the federation if certain "political forms" were forced upon them.

It was the clearest indication so far of the major differences between Slovenia, Yugoslavia's most liberal republic, and Serbia, which remains entrenched in more orthodox communist ideology.

Mr Milan Kucan, Slovenia's popular party leader warned that "Slovenia would not exist in a Yugoslavia where political and national domination was forced on it.

"The unitary ideas among big nations are also separatist in their intent," Mr Kucan said, in remarks which were pointedly directed at Serbia's apparent attempts to gain political domination over the federation.

His unusually frank remarks, made during a rally in Ljubljana at the weekend, followed an exchange of letters between both republics.

Last March, the Slovene leadership had invited the Serbs to discuss the deteriorating political situation in the country and particularly the force used against the ethnic Albanians in the southern province of Kosovo.

However, the Serbian party leadership, which until recently was led by Mr Slobodan Milosevic, openly rejected the invitation. Instead it resorted to sharply criticising Slovenia's political system as well as its defence of the ethnic Albanians of Kosovo.

Mr Kncan said he would make no more overtures to the Serbian leadership.

"We will not offer our left cheek to those who have slapped us on the right one," he told thousands of Slovenes.

Essentially the dispute centres on what direction the political reforms should take.

Slovenia and Croatia advocate greater pluralism inside and outside the party; Serbia favours retaining the party's leading role.

The dispute is also linked to the party congress due later this year.

Party officials in Ljubljana fear that Serbia, the republic with the highest party membership, will attempt to change the statutes to "one-man, one vote" instead of each republic having the same number of delegates.

Israelis boycott Socialist International

By Robert Taylor in Stockholm

A ROW has broken out in the Socialist International with the arrival of a delegation from the Palestine Liberation Organisation to attend its 100th anniversary conference in Stockholm as observers.

The Israeli Labour Party is boycotting the gathering in protest at the presence of the PLO group led by Mr Yassir Abed Rabbo at the conference.

But Mr Shimon Peres, Israel's Finance Minister and Labour leader, is in the Swedish capital at the moment as the guest of Sweden'e finance minister Mr Kjell-Olof Feldt.

At a press conference yesterday Mr Peres attacked Sweden's mediating role between the PLO and Israel, suggesting that the Swedish Government was taking sides in the Middle East dispute and not acting as a bridge between them.

It is clear that the Israel Labour leaders believe thet Sweden is behind the PLO presence at the conference, hoping that this would lead to a resumption of private contacts to try to resolve the present deadlock.

Mr Peres complained at the way the Socialist International had behaved in inviting the PLO to come to the conference and disregarding Israel's objections.

He said that the organisation's president Mr Willi Brandt had expressed his concern over the matter to him.

Israel's Finance Minister repeated his government's commitment to the holding of elections in the occupied territories on the West Bank

He said he envisaged a confederation in the area hy the end of the century covering the Israelis and the Jordanians and maybe even the Palestinians.

Bilak turns on latest reforms

MR VASIL Bilak, a former member of the Czechoslovakian ruling Praesidinm, has said that the reforms in Hungary and Poland are causing economic and political chaos, Reuter reports from Vienna.

In ons of the strongest condemnations yet of one Commnnist country by another, Mr Bilak said: "I am among those who genuinely fear that the situation in Poland and Hungary is on the verge of dramatic events."

Mr Bilak asked a Party Central Committee meeting how the communist trading hloc could continue

Back to square one in Italy's attempt to form new coalition

By John Wyles in Rome

"POLITICS as usual" returned to Italy yesterday with the resumption of attempts to form a new government after a European election whose results seem to promise no more than another two years of disorderly and only intermittently effective coalitions.

"Really nothing has changed," said Mr Arnaldo Forlani, leader of Italy's main governing party, the Christian Democrats.

He was referring, of course, to their impact on domestic politics and meant that it would be neither easier, nor more difficult, than before for Mr Ciriaco De Mita, the outgoing Christian Democrat prime minister, to succeed in his attempt to form the 49th post-war government.

While many observers see the results as a clear instruction to the five parties who have formed five coalitions since 1988 to get on with the job of governing, it also seems that the outcome will, if anything, strengthen those tendencies which make for weak unstable governments in Italy.

Collectively the five parties lost 2.5 points of the 57.3 per cent share of the vote they won in the 1987 general election and this will not encourage them to press ahead with policies for restoring public finances and reforming public services begun when Mr De Mita came into office 14 months ago.

Crucially, Mr Bettino Craxi's Socialists were the real losers on Sunday, even though they were the only coalition party to increase their vote – by 0.5 per cent. Mr Craxi's battle for leadership of the left has slipped badly because he was aiming for at least 2 per cent more and because the Communists halted their five-year electoral slide

An additional source of instability will be continued internal warfare within the Christian Democrats becsuse the victory of Mr Forlani and his supporters over Mr De Mita at the party'e Congress in February has not brought a clear electoral dividend. Mr De Mita would prefer to be inside the party re-organising his forces than at the head of the government, and so his commitment to succeeding in the present government-forming exercise is suspect. But the tenure of the next Christian Democrat prims minister, whoever he is, will be easily shaken by the power struggle within his own party.

EUROPEAN NEWS

EC collaborative research work to be extended

By William Dawkins in Luxembourg

PLANS to extend and bring better organisation to the EC's Ecu 6.48bn (£4.39bn) collaborative research programme will be tabled by the European Commission next month.

A meeting of European community research ministers yesterday welcomed an initial proposal by Mr Filippo Maria Pandolfi, the Commissiooer responsible, to turn the EC's current five-year research programme, into a more flexible rolling project.

The aim is to give more coherence to EC collaborative research in the 1990s, according to a report prepared for the Commission by a panel of five senior indnstrialists and science experts.

The Community's current research budget, which covers information technology, telecommunications and biotechnoiogy among a wide range of other subjects, is due to run out at the end of 1991.

Mr Pandolfi is expected to publish the Commission's proposals for a new programme, to cover the period until 1994, on July 13, for EC Governments' agreement by the end of the year.

He was unable yesterday to give details of the new scheme, being worked out by Commission and national experts. However, it will follow the broad lines of the panel's recommendations for better co-ordination between different EC projects and a continued *emphasis* on *pre-competitive* research.

Future Community-funded research will be organised into three main areas: the spread of technology in telecommunications, information, industry and advanced materials and biotechnology; the management of natural resources through environmental and energy research and the management of human resources through encouraging more scientists to work across frontiers.

In the meantime, Mr Pandolfi said existing projects could draw Ecu 1.2bn in 1991 and Ecu 1.36bn in 1992 from *the rest of the EC budget, once* cash specifically allocated to research has run out.

Ministers also gave the green light yesterday to Ecu 482m of spending on 10 joint research projects, almost completing the allocation of cash in the present programme.

Call for axing of import controls on Japanese cars

By William Dawkins

EUROPEAN Community Governments will today come under fresh pressure to scrap import controls on Japanese cars.

Mr Martin Bangemann, the European Commissioner for industry and the internal market, is expected to press a ministerial meeting in Luxembourg for a response to Brussels' plans to dismantle trade barriers in the car industry.

France and Italy, sensitive to the interests of their volume car prodncers, are likely to repeat their earlier doubts over full liberalisation.

Todays' meeting will be EC governments' first chance to give a formal response to the Commission's plans for the car industry since Mr Bangemann *sketched out his ideas* to an informal ministerial gathering in April.

Since then, a formerly divided Commieslon has agreed in principle on the removal of bilateral limits on Japanese car imports by the end of 1992. The five member states operating such restrictions are Italy, France, Britain, Spain and Portugal.

This would be followed by an *as yet undefined system of* "monitoring" of Japanese imports, to soften the transition. The agreement also calls for the creation of a single EC-wide technical approval for cars.

EUROPE'S BANKING SERVICES

Directive an important move towards a single market

By David Lascelles, Banking Editor

AGREEMENT BY European Community finance ministers late on Monday night on the new Banking Directive paves the way for the creation of a single market in banking services – one of the more ambitious building blocks of the 1992 plan.

The agreement was not final in the sense that a definitive text is now in place. Officially it is "a political consensus". Some minor points have still to be ironed out, and the new draft must be approved at the next meeting on July 10 before going back to Strasbourg for a second reading in the European Parliament. But politically, all the big ministerial hurdles have been crossed, and the main points are now clear.

The Second Banking Directive is of considerable significance to 1992, not merely for what it holds for the banking industry itself, but also as a *symbol for the unification of* the European market.

Sir Leon Brittan, the EC vice-president in charge of financial services, now reminds people that this sector contributes more than twice as much to Community GDP as agriculture: some ECU 330bn. He hailed Monday's agreement as "a major breakthrough", adding: "We have agreed the formula for the largest and most unified banking market anywhere in the world."

The Directive's most important effect is to introduce the concept of a "single banking licence", rather like a driving licence which, once issued by a member state, is valid in all the other states. To ensure that all who hold licences are suitably qualified and supervised, there are further provisions in the Directive and in other measures for minimum capital and solvency requirements.

This means that a Greek bank operating in the UK, or a British bank in Portugal, or a Spanish bank in Denmark, will all have to meet the same standards of capital and management.

The licence covers an agreed list of activities inclnding, aside from obvious bank services like deposit-taking and lending, others like money transmission, and securities trading. An activity which has been added to the original list is the provision of financial advice, which would cover corporate finance and advisory work on mergers and acquisitions.

The point about the list is that a bank which has been authorised by its home supervisor to engage in an activity included in it, may pursue it through the EC, even in countries where banks are barred from that activity.

Possibly the most contentious point in the Directive – Article 7 governing reciprocal access for EC banks to third countries – has been resolved by compromise. The original text proposed a bureaucratic vetting system which would be triggered automatically whenever a bank from outside the EC sought an EC licence.

This unleashed a storm of criticism, both from EC members such as the UK which disliked its protectionist overtones, and from banks abroad, particularly the US, which feared they might be excluded from the EC because of restrictive US banking laws.

The revised Article now requires the Commission to report on how accessible third countries are for EC banks. Where EC banks do not enjoy "national treatment" – i.e. rights comparable to local banks' – the EC will take retaliatory measures, such as suspending or delaying requests for authorisation. But the Article also says the Commission should draw up proposals for the Council to negotiate "*comparable access*" – in other words, go one stage further and seek the same freedoms for EC banks in third countries as third country banks enjoy in the EC.

This compromiee hae defused a troublesome issue, and probably set a pattern for EC reciprocity policy in other areas of financial service such as insurance and investment.

Still to be resolved, however, is the question of precisely who should be responsible for implementation of reciprocity policy, the Council or the Commission. The opponents of reciprocity want to ensure it remains at the political level – in the Council – rather than with the bureaucrats.

The Directive fits into a wider pattern of measures. Also agreed on Monday was the Solvency Ratio Directive which sets out capital requirements for banks. These are closely modelled on last year's international Basle Agreement so as to avoid creating a further set of rules for banks. However there are some differences. Mortgages, for example, are to get slightly more lenient treatment in the EC for three countries – West Germany, Denmark and Greece – for a period of three years. The UK's discount housee are also exempted because of the special nature of their business, which involves heavy position-taking in the money markets.

Other Directives cover own funds, deposit protection, large exposures and consolidated reporting.

A related measure is the proposed Directive on investment services. *Since the Banking* Directive covers dealing in and underwriting of securities – and in most EC countries the major securities dealers are banks – this directive might be superfluous. However there is no intention in Brussels to drop it.

The package of measures is likely to receive a generally positive welcome from banks. The British Bankers Association, which has been one of the most vocal commentators on the debate over the directive, indicated yesterday for example, that it was pleased it had gone through, though it regretted the fact that it still contained some bureaucratic procedures.

Even so, as one of the EC's most heavily regulated industries, banking should become considerably more flexible once the Directive is in place. However, so far banks have shown considerable caution in assessing the prospects for expansion within a *unified* market, and a recent survey by the Bank of England suggested that change would be slow in coming.

The Second Banking Directive

ALTHOUGH THE text has yet to be finalised, the main points of the 23-article Second Banking Directive are expected to be as follows:

- **Art 3. Sets a minimum capital requirement for banks of ECU5m, but special provision is made for small enterprises and banks with down to Ecu1m of capital when the Directive comes into force on January 1 1993.**
- **Art 4. Provides for substantial shareholders in banks to be vetted**
- ***Art 7. Establishes procedures for* ensuring reciprocal access for EC banks to third countries from which banks are seeking entry to the EC market. This will be based on "national" treatment, but there is provision for the Commission to negotiate "equal access".**
- **Art 10. Controls banks' long-term shareholdings or "participations" in non-financial companies.**
- **Art 12. Apportions responsibility for supervision of various aspects of bank activity between home and host countries. In particular, it gives host countries the right to control bank liquidity for monetary reasons.**
- **Arts 16-18. Establish the single passport, and lay down a list of activities which, once authorised by their home *supervisors*, banks may *conduct* throughout the EC, even in member states where local regulations prohibit them.**

The Solvency Ratio Directive

THIS DIRECTIVE lays down the capital requirements for banks in the EC. It is modelled closely on last year's Basle Agreement which created the risk asset ratio (a formula for relating a bank's capital to the riskiness of its assets). The main difference is that while Basle applies only to international banks on a *voluntary basis, the Directive will have* legal force for all banks.

Its main provision is a minimum risk asset ratio of 8 per cent, including off balance sheet assets, the same as Basle.

***BOTH DIRECTIVES* are linked to other Directives on consolidated reporting, large exposures, deposit protection, and own funds. Further measures may be introduced on position and interest rate risk.**

Sir Leon Brittan

Unease over insider dealing rules likely in spite of changes

By Richard Waters

THE RULES on insider dealing agreed by finance ministers on Monday night, while laying to rest serious concerns of recent months, are likely to be a source of unease for some time to come.

In London in particular there is continuing concern that the details of the rules will impinge on the way securities business is conducted.

This arises from the speed with which the proposals were put together. As recently as a month ago, the chairman of London's Stock Exchange claimed that substantial delays would be needed in the original timetable if proper consideration was to be given to the issue.

The fact that an agreement has been reached so soon has left little time for the detailed rules to be absorbed.

To take just one example being quoted in London yesterday: stockbrokers' analysts will only be able to produce estimates of companies' profits based on publicly available information.

This may hinder old ways of doing business, when analysts enjoyed privileged relationships with the companies with which they dealt – although the Big Bang reforms have already changed many of these.

The British Government, however, says it is "not aware of any innocent well-established City practice that will be outlawed."

Of the behaviour of analysts it adds, though: "It is an area where there is great uncertainty in the City about what existing UK law already says."

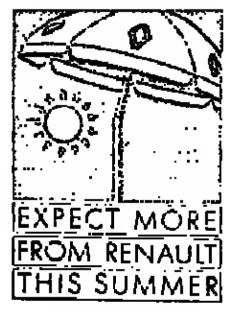
Despite the misgivings on points of detail, the insider dealing rules have come a long way in a short space of time.

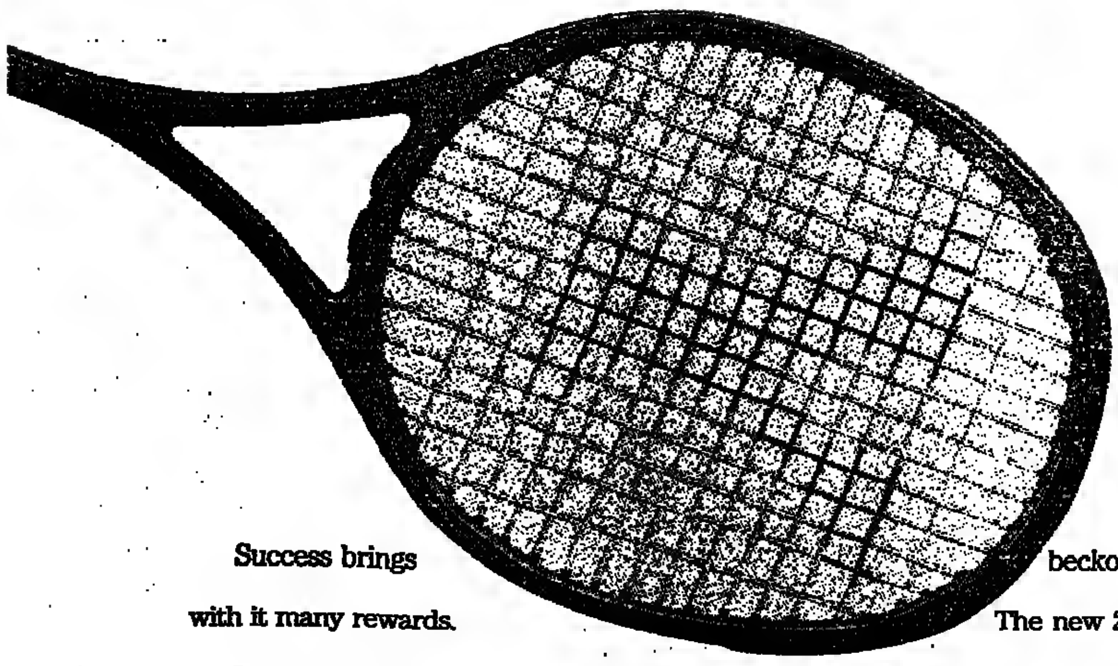
As recently as three months ago, while most European countries appeared happy with the proposals, the UK was dissatisfied with some of the major principles. It feared that some of the practices in London's financial markets, such as the handling of takeovers and new issues in the bond markets, would be outlawed.

Exemptions have now been introduced which allow bona fide operators to use price sensitive information where this is necessary for them to conduct their business.

Insider dealing is to be defined as taking advantage of unpublished information "of a precise nature" which has not been made public. It only applies where there is clear evidence that the individual knew what he was doing.

It also establishes a distinction between "primary" insider dealers, who are employed by the company in question or its advisers, and "secondary" ones, who come by the information in some other way.





Some methods of relaxation involve working up a sweat. Don't worry, the new Renault 25 isn't one of them.

Announcing a major breakthrough in the treatment of executive stress.

Success brings with it many rewards.

Long hours. An unpredictable social life. Irregular meals. A lack of regular exercise. Mental fatigue...

The pressure to carry on succeeding is, it seems, the price you pay for having as they say 'arrived.'

It's sometimes argued that the car you arrive *in* has a bearing on your success. A more important question is, can the car you arrive in make a difference to your level of stress?

Doctors agree that many people who lead hectic lives have lost something fundamentally important without even realising it. Namely, the ability to relax.

Before you consult your doctor though, perhaps you should make arrangements for an appointment with a different type of specialist: your Renault dealer.

Here you'll find the new Renault 25 V6 2.9 injection, equipped with 4 speed automatic gearbox.

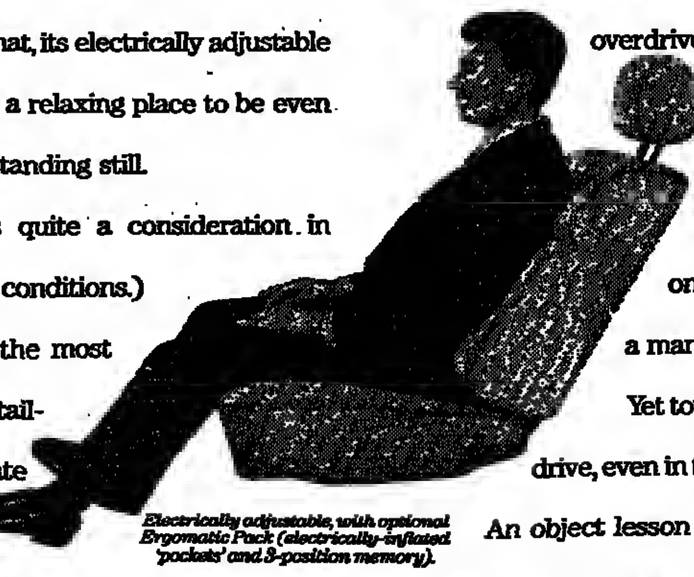
A car which has been designed to soothe you as it moves you.

Handel's Water Music, said to be the most relaxing music ever written. But only if you have time to listen to it.

Come to that, its electrically adjustable driving seat is a relaxing place to be even when you're standing still.

(Which is quite a consideration in today's traffic conditions.)

But even the most interminable tail-backs evaporate eventually.

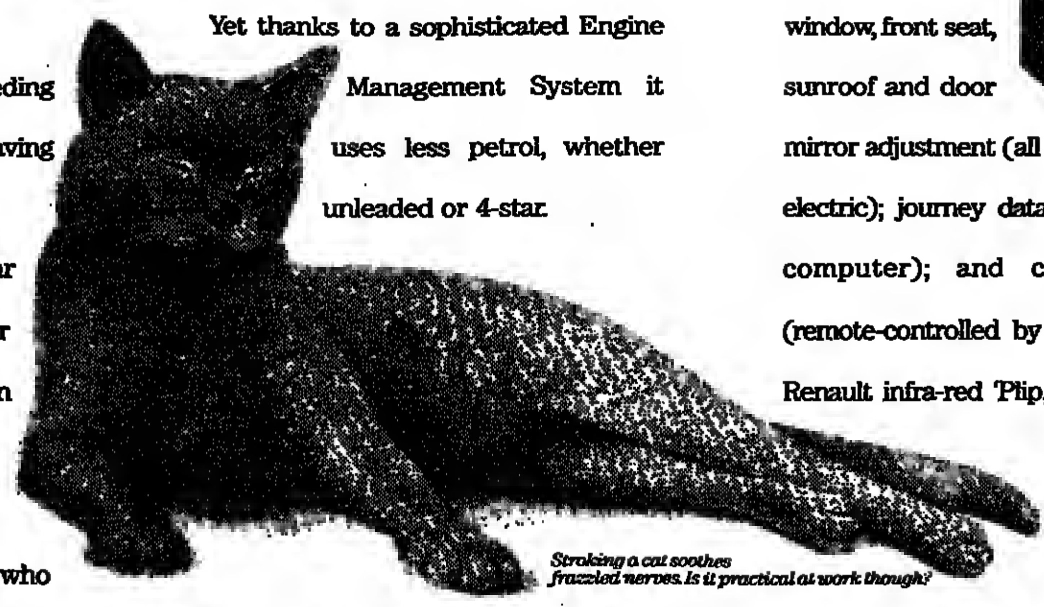


Electrically adjustable, with optional Ergomatic Pack (electrically-inflated 'pockets' and 3-position memory).

The open road beckons at last.

The new 2.9 V6 injection engine develops an impressive 160 bhp –11% more than its predecessor.

Yet thanks to a sophisticated Engine Management System it uses less petrol, whether unleaded or 4-star.



Stroking a cat soothes frazzled nerves. Is it practical at work though?

Even more impressive than the instant response to your merest brush of the accelerator pedal is the way the engine delivers its power: in a word, effortlessly.

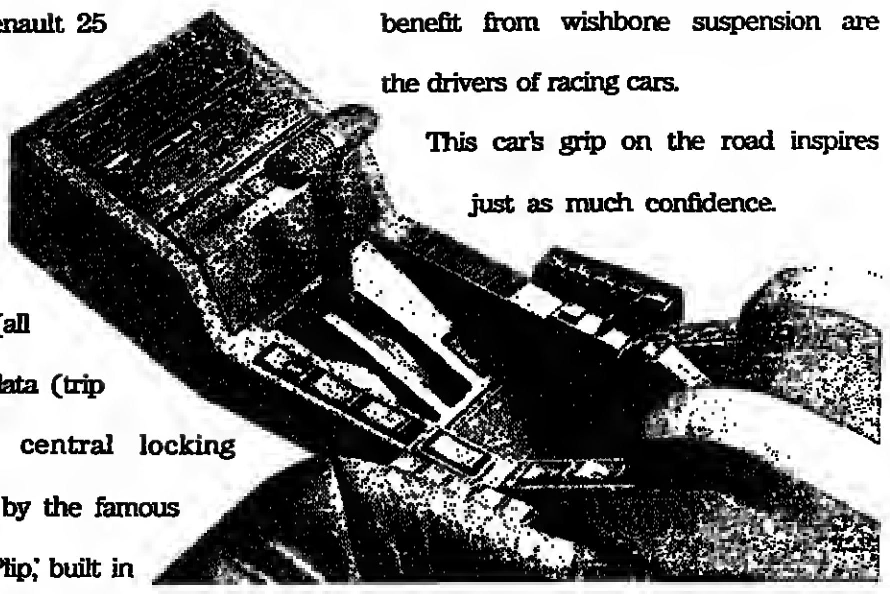
Complementing it is a state-of-the-art automatic transmission: four speeds with 'performance' and 'economy' modes, plus overdrive lock-up on top gear.

This makes the car practically as fast and economical on the open road as a manual version.

Yet totally undemanding to drive, even in the heaviest of traffic.

An object lesson in the delegation of responsibility if ever there was one.

Other humdrum duties made less tedious by the Renault 25 include steering (power assisted); window, front seat, sunroof and door mirror adjustment (all electric); journey data (trip computer); and central locking (remote-controlled by the famous Renault infra-red 'Plip,' built in to the ignition key).



Important decisions can only be delegated to those you trust, e.g. Renault's new 4-speed automatic gearbox.

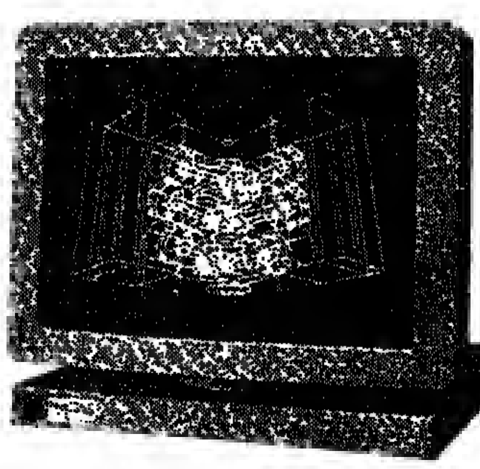
The standard hi-fi system is also remote-controlled, from a fingertip stalk mounted on the steering column.

Although when we say standard, we mean anything but.

How does a 4 x 20 watt amplifier with six speakers, a graphic equaliser, digital stereo tuner and high quality tape deck sound?

Probably a good deal better than the stereo in your living room.

Of course, all this would be wasted if you couldn't hear it properly.



Smooth, injected V6 power. So your tranquillity won't be disturbed, even on the longest, fastest journey.

But you can, thanks to the Renault 25's aerodynamic body and advanced suspension system.

Among the people lucky enough to benefit from wishbone suspension are the drivers of racing cars.

This car's grip on the road inspires just as much confidence.

But there any resemblance to the race track ends, because the ride is whisper-quiet – thanks to an extra-large bottom wishbone and revised mounting points.

Whatever the road conditions, your progress remains serene.

Better still, this feeling of serenity won't evaporate the moment you remember how much you paid to achieve it.

£17,520 to be exact.

The price, as with all Renaults, includes a 12 month unlimited mileage warranty.

It also includes a six *year* anti-perforation warranty and a year's free membership of the RAC.

Equally welcome is the professional back-up of the 300-strong nationwide Renault dealer network.

Stress-relief the Renault way starts with a free 'phone call (any time day or night) for a brochure, to 0800 400 415.

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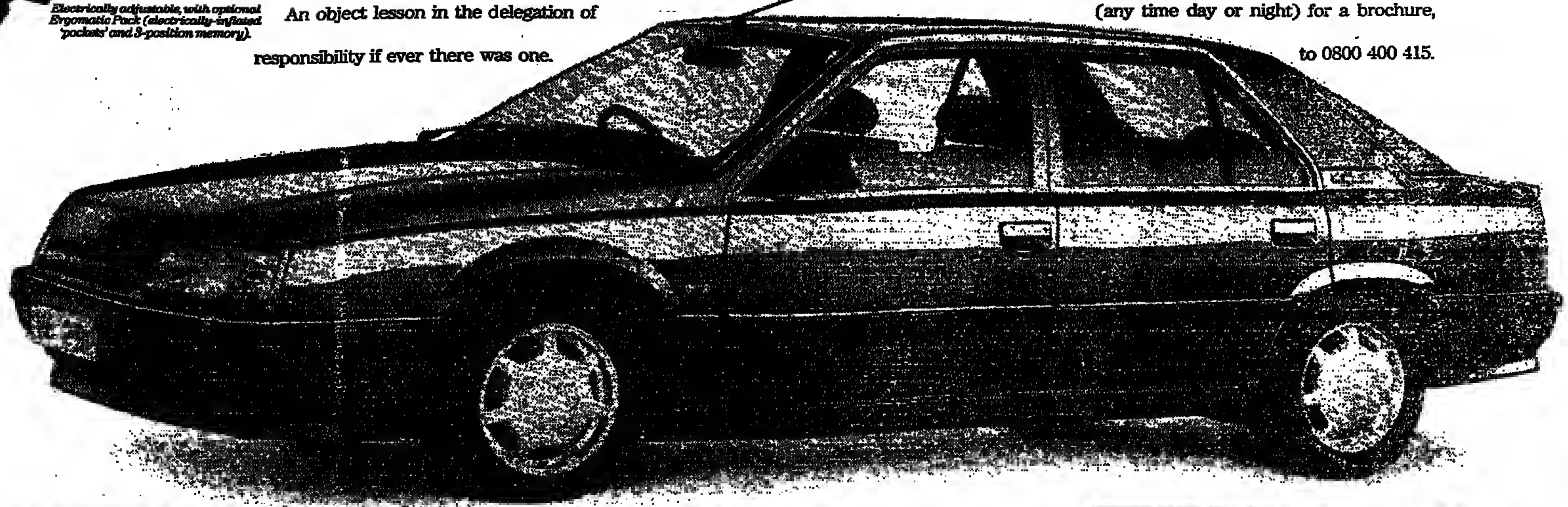


THE NEW RENAULT 25 V6 2.9 INJECTION AUTOMATIC. £17,520.

Prices (correct at time of going to press) include Car Tax and VAT. Number plates and delivery extra. Renault Financial Services provide a complete range of vehicle purchase programmes. RENAULT recommend elf lubricants.

Ligachev wins seal of official approval

MR YEGOR LIGACHEV, former Kremlin number two recently accused of corruption and incompetence, won clear official approval on Monday with the publication of his selected political works, Reuter reports from Moscow.

"The collection is aimed at party activists, ideological and scientific workers and a wide circle of readers," said the official news agency Tass. The book includes the conservative Mr Ligachev's articles on the restructuring of society and the economy and on Communist Party policy.

Mr Ligachev was the de facto number two to Communist Party leader Mr Mikhail Gorbachev until he was removed from the post of ideology chief last September to head agriculture.

He was recently accused by s deputy in parliament of having failed as ideology chief and being ignorant sbout agriculture.

Mr Ligachev has also denied an allegation that he was among top officials whose names had come up in a major corruption probe.

Prime Minister Nikolai Ryzhkov indicated before a recent session of the policy-making Central Committee that the leadership was behind Mr Ligachev.

He said Mr Ligachev would speak in his own defence. But Mr Ligachev's name was not on the list of speakers during the session issued by Tass and there were no indications that the plenum had discussed his case.

Hunger strike suspended

A SOVIET former prisoner said he and his wife had suspended hunger strikes they began earlier this month to try to persuade the Soviet authorities to allow her to leave Moscow and join him in Switzerland, reports Renters.

But Vladimir Balakhonov said the couple plan another hunger strike when Soviet President Mikhail Gorbachev visits France next month.

Balakhonov said he lost 12kg during his nine-day spell withont food from. His 47-year-old wife Galina, who took liquids, lost 6kg. They kept in touch by telephone during tha hunger strike, be said.

Balakhonov said he was allowed to leave the Soviet Union following 15 years in prisons after being convicted of treason and slandering the Soviet state.

Literary exile to literary feud: the Solzhenitsyn story

Paul Winfrey looks at the bitter battle of letters in the Soviet Union's leading glasnost newspaper

Alexander Solzhenitsyn: return to literary feud

FOR more than 20 years, Alexander Solzhenitsyn's stirring novels of spiritual survival and communist oppression have been too ideologically pointed for publication in his native country.

Long-censored works by George Orwell, Arthur Koestler and Anatoli Rybakov have appeared in prominent Soviet journals, but Solzhenitsyn has remained the one great Russian writer whose works remained too hot to handle.

That isolation has finally, ended with the republication in the journal Ogonyok of Matryonin's House, a lesser known Solzhenitsyn short story which first appeared in the journal Novimir in 1963.

Although the graceful tale of a young man's travels in the summer of 1953 is far from Solzhenitsyn's most important work, *its appearance* in the hard-hitting weekly magazine Ogonyok carries extraordinary political significance – and not only because it marks the end of the unofficial ban on Solzhenitsyn.

Rather, with his publication in Ogonyok, Solzhenitsyn has been dragged directly into a raging literary feud, which has split the Soviet literary community into harshly opposed camps. Even under glasnost, conservative writers and disgruntled Stalinists seldom criticise Gorbachev directly, so the discussion over the country's future has been partly diverted into this debate over Ogonyok, the nation's hardest hitting glasnost weekly.

In the last year, disgruntled Soviets and unrepentant Stalinists have often lined up to criticise this living symbol of the Soviet press's new-found boldness.

Under the editorship of Vitali Korotich, Ogonyok has led the pack of glasnost publications in exposing *Stalin*'a crimes, criticising the war in Afghanistan, even mocking the system of privileges for writers who produced oafish tributes to the country'a leadership.

Conservative writers have hristled over the magazine's critical presentation of Soviet life and blistering exposees of bureaucratic abuse, hnt the public loves it.

Under Korotich's editorship, Ogonyok'a *circulation* has grown to over 3m, with a long waiting list for subscriptions. Not everybody likes glasnost, especially when it criticises the "achievements" of 70 years of Bolshevik rule and casts aspersions on Russian nationalist writers' integrity.

As a result, conservative writers like Valentin Rasputin and Mikhail Alekseyev, the editor of the semi-Stalinist journal Moskva, have lined up to bash Ogonyok, accusing it of "using tha latest party slogans" to "defame the Socialist achievements of tha people" and debase cultural values.

Korotich has responded in kind, turning the letters page of Ogonyok over to writers casting doubts on the literary merits of some prominent writers and accusing people like Yuri Bondarev, the powerful secretary of the Rnssian writer's union, of using his office to protect conservative writers and censor left-leaning ones.

In the last year, the fend has taken on extraordinary proportions, with denunciations and counter denunciations filling the letters pages of the country's major newspapers and journals.

Last winter, the dispute got unusually petty when the little known Communist Party journal Politicheskoe Samoobrazovaniye fired back at Korotich, pointing out that as a little known editor he had once signed an embarrassingly flattering review of Leonid Brezhnev's turgid memoirs.

The article was intended to portray Korotich as an opportunist who would follow whatever political line was laid down in the Kremlin. Korotich, in kind, turned over two pages of his magazine to answer the charges with an emotional plea that the editorial in question had been rewritten after he had agreed to sign it.

Now, months later, Solzhenitsyn has been dragged into the feud. Alongside the Solzhenitsyn story, Ogonyok publishes a brief aside, dredging up several long-forgotten interviews with conservative writers in which they criticise Solzhenitsyn.

Among those quoted in Ogonyok attacking Solzhenitsyn are many of Korotich's ideological enemies. Ogonyok quotes a long forgotten article by conservative Pyotr Proskurin in which he accuses Solzhenitsyn of harbouring "pathological spite in his attitude to his own people." Another entry dredges up an old interview with Yuri Bondarev in which the current dean of .conservative soviet writers lashes out at Solzhenitsyn's attempt to "settle his debts with the entire nation."

While Ogonyok was reminding its readers how the nation's conservatives behaved when Solzhenitsyn was in disfavour, other writers and polemicists have called openly and agressively for a restoration of Solzhenitsyn's citizenship and publication of his major works.

One prominent writer, Mr Yuri Karyakin, personally appealed to Mr Gorbachev on live television at a session of the Congress of People's Deputies, noting that if Mr Gorbachev could find a common language with anti-communists like Pope John Paul II and Mrs Margaret Thatcher then surely there was room for dialogue with Solzhenitsyn.

In response, the Soviet government has out out mixed signals about how Solzhenitsyn should be handled in the new liberal atmosphere. Last autumn, Polithuro member Vadim Medvedev ruled out publication of Solzhenitsyn becanse his work would "undermine the foundation of our system."

By contrast, the Sovetskaya Rossiya publishing house recently announced that it would publish three of Solzhenitsyn's works later this year.

Ironically, the reminder of who kicked Solzhenitsyn while

Long-censored works by George Orwell, Arthur Koestler and Anatoli Rybakov have appeared in prominent Soviet journals, but Solzhenitsyn has remained the one great Russian writer whose works remained too hot to handle: now that isolation has finally ended.

he was down is something of a pre-emptive strike. Now that Solzhenitsyn is making his long deserved return to Russian letters, conservative writers like Rasputin and Bondarev would love to claim him as one of their own.

As a distant cousin of the modern village prose movement, Solzhenitsyn's neo-slavic romantic vision of village life is a close relative of their work. But by viciously reminding Ogonyok's readers of these writers' shameless behaviour at the time of Solzhenitsyn's downfall, Korotich has conducted an effective pre-emptive strike, claiming Solzhenitsyn as an ally on the anti-Stalinist side of the debate

No doubt, the conservatives will soon respond in kind. The latest attack was too humiliating, and too accurate, to be ignored. But for the moment: a victory for Korotich, and a victory for Solzhenitsyn - whose work is finally returning to his native country.

WORLD TRADE NEWS

US trade policy comes under fire from Gatt

William Dullforce on the storm brewing in the trade organisation

US TRADE policy will be the centre of a storm in the General Agreement on Tariffs and Trade during the next two days, as the world trade organisation's council tackles what is probably the busiest agenda in its history.

Before it embarks on its regular agenda, the council will hold a special session in which last month's decision by Mrs Carla Hills, the US Trade Representative, to single out Japan, Brazil and India for possible retaliatory action under section 301 of the revised US Trade Act will be lambasted by many of Gatt's 96 members.

Of the 28 items on the agenda of the regular council, four involve applications to join Gatt and five call for technical decisions on tariffs or organisational and budgetary matters. But no less than 13 of the remaining 19 items directly concern the US as the target or initiator of complaints.

In three cases the US has yet to comply with the Gatt disputes panels

In three cases the US has yet to comply with the recommendations of Gatt disputes panels, while a new panel report before the council finds in favour of an Australian complaint about US restrictions on sugar imports.

The basis for the discussion in the special session is a report from the Gatt secretariat on recent trade policy developments. It warns governments that the priority they have attached to a successful conclusion of the trade-liberalising Uruguay Round is facing its sternest test.

A common theme in today's discussion is likely to be that the US is jeopardising the multilateral trade talks by its insistence on using Mrs Hills' bilateral crowbar to prise out trade advantages.

Mr Dinesh Singh, India's Trade Minister, set the tone last week when he publicly doubted whether there was any use in continuing multilateral negotiations while threats of unilateral trade action were being made.

New Delhi has firmly refused to negotiate under Washington's threat on India's foreign investment regime and its insurance market. Japan is apparently reserving its fire for the special session but India and Brazil have also put the US 301 action on the council's regular agenda.

In reality, it is not easy to charge the US with violating Gatt since no sanctions have so far been applied under section 301 and the Act does not make retaliation mandatory on the President. A more tenable argument is that by tightening its legislation the US has broken the Uruguay Round standstill, under which governments agreed to take no trade action designed to strengthen their negotiating positions.

Moreover, the US has been quite skilful in giving body to Mrs Hills' assurances that the Bush administration prefers a multilateral trading system and is still giving priority to the Uruguay Round talks.

On the debit side, the US is likely to block for the fifth time acceptance of a dispute panel report which ruled against its handling of patent infringement cases. On the credit side, it is expected to inform the council that legislation has been tabled with Congress, which would bring the US into line with Gatt rulings against its "superfund" oil levy and against its imposition of customs user fees.

There would be no surprise, too, if the US accepted the Gatt ruling on the Australian complaint about its sugar import restrictions, in spite of the alarm this has caused in the sugar producers' lobby in Washington.

Sugar is also involved in the deal which Washington struck last month with Brussels. Under this the US will allow Gatt to examine a European Community complaint against US import quotas on sugar and sugar-containing products, imposed under a 1955 Gatt "waiver."

In return the EC will stop procrastinating in the council over a Gatt investigation into the Community's oilseeds regime.

There is widespread indignation at the accusations against India, Japan and Brazil

The US is also demonstrating its loyalty to the multilateral trading system by using the Gatt disputes procedure to defend its interests.

Two reports before the council — on EC rules for apple imports and Korean restrictions on [illegible] — came out in favour of the US. Moreover, Washington will initiate the new Gatt dispute procedure, agreed at the Uruguay Round's mid-term review, this week by asking the council to investigate EC restraints on exports of copper scrap.

Nevertheless, in the prevailing highly charged atmosphere of the Gatt, these manifestations of US commitment to a multilateral system are unlikely to counter the widespread indignation provoked by Mrs Hills' "naming" of Japan, Brazil and India as unfair traders.

Mr Rufus Yerxa, the new US ambassador to Gatt, can expect a severe baptism of fire.

Austria to cut tariffs on over 1,800 items

AUSTRIA will rednce its tariffs on more than 1,800 import items by up to 50 per cent from January next year, reports William Dullforce from Geneva.

The announcement will be made today to the council of the General Agreement on Tariffs and Trade. The reductions will cover a wide range of products, including construction materials, chemicals, fuels and textiles.

Vienna sees its cuts as an advance contribution to the overall reductions expected to result from the Uruguay Round. Austria's gesture also reflects the frustration of many countries over the impasse that has developed in the tariff negotiations under the Round.

Most governments want tariffs to be cut under the harmonisation principle under which an overall level of reduction is agreed and usually applied individually by each country. Target for the Round is a 30 per cent cut.

The US had been holding out for negotiating cuts on a request-and-offer basis, arguing that its average tariff rate is already so low that it makes no sense for it to join a harmonised reduction.

Bangkok skytrain runs into financing hitch

By **Roger Matthews** in Bangkok

NEGOTIATIONS are taking place this week in Bangkok to resolve difficulties which have arisen over the financing arrangements for the city's planned $1.6bn mass rapid transit rail system known popularly as "skytrain."

At issue are the conditions attached by the Export Development Corporation of Canada to the $625m in loans which it is proposing to make in support of the bid by a consortium headed by Lavalin International and the Urban Transport Development Corporation of Toronto.

Lavalin, with its Japanese and Thai partners, was declared the preferred bidder by the Expressways and Rapid Transit Authority of Thailand (ERTAT) last November after fierce competition with two rival international consortia.

Independent consultants advising the Thai authorities had preferred by a wide margin the scheme put forward by the Asia-Euro consortium headed by Leighton Contractors of Australia in conjunction with West German and Belgian companies.

Detailed negotiations between Lavalin and ERTAT appeared to be progressing smoothly until the announcement from the Thais that the two losing consortia should stand by for possible further discussions.

The Thai euthorities are understood to be unhappy at the extent of the guarantees sought by the Canadian Export Development Corporation.

Under Thai law the government can only provide full guarantees for loans made to companies which are at least 70 per cent state-owned. The company being set up to build and operate the skytrain systsm will havs only a 25 per cent Thai government stake.

Of the $625m that the Canadian Export Development Corporation is planning to make evailable, 39 per cent is interest-free with repayments spread over 50 years and the remainder at the OECD consensus rate of 8.3 per cent.

ERTAT is reported to have asked Lavalin to persuade the Canadian export finance agency to soften the conditions attached to the $625m package or propose a formula of words which would amount to less than a full guarantee.

Several options are believed to be under consideration but the Export Development Corporation also has its own legal obligations to fulfill and will also be wary of setting precedents which could be used as leverage in other negotiations.

All three consortia are believed to have been eware the Thai government would not be offering protection against foreign exchange risks but presumably hoped arrangements could be agreed later.

Sematech in EC chip talks

By **Louise Kehoe** in San Francisco

SEMATECH, the US government backed semi-conductor consortium, has held preliminary talks with European chip makers to define areas of common interest, the US group said yesterday.

"Representatives of Siemens, SGS Thomson and Philips visited Sematech last week to discuss opportunities for potential cooperation between Sematech and JESSI (Joint European Submicron Silicon)," a representative of the US consortium said.

"A study group was set up to further define the areas where common activities can substantially help in reaching mutual goals," a Sematech official said. The study group will address issues such as common interface standards for semiconductor production equipment and software standards for automation.

Sematech denied reports that European semiconductor manufacturers might be admitted as members of the US consortium, which currently has 14 member companies, all of them American.

European semicondnctor producers havs in the past, however, expressed interest in reciprocal membership of Sematech in return for US involvement in JESSI.

European semiconductor executives are meeting this week to draw up a formal charter for JESSI, which is a pan European research project aimed at developing advanced semicondnctor technology. JESSI is to be jointly funded by member companies, the European Commission and individual European governments.

Sematech was created a year ago with the goal of re-establishing US leadership in semiconductor manufacturing technology in the face of Japanese competition.

Hong Kong reaction mixed to EC move on dumping

By **Michael Marray** in Hong Kong

THE imposition of anti-dumping dnties on Hong Kong videocasette tape manufecturers by the Europeen Community has met with a mixed response from the Hong Kong government. It welcomed some significant concessions from the EC while reserving the right to continue to fight the action.

Provisional duties announced last December, designed to bring the cost of video cassette tapes imported into the EC up to e designated fair price in cases of alleged illegel dnmping, ranged between 8.1 per cent and 59.3 per cent. But the permanent duties now imposed after the investigation range from zero for one manufacturer to a maximum of 21.9 per cent.

Because Hong Kong has a tiny home market the domestic price of its products is not compared to the export price in anti-dumping actions. Instead a hypothetical price is constructed by the EC investigators – which Hong Kong manufacturers argue is often inflated.

Ten seek to join Gatt

Venezuela and Nepal will formally apply for membership of the General Agreement on Tariffs and Trade today, reports William Dullforce.

Their applications will take to 10 the number of countries, including China, currently seeking to join the 96 existing members of the world trade organisation.

Venezuela is the last remaining sizeable economy in Latin America not to be a member of Gatt. Its application is of special interest because it also belongs to the Organisation of Petroleum Exporting Countries.

So far Gabon, Indonesia, Kuwait and Nigeria are the only Opec countries in Gatt. Saudi Arabia has expressed interest but has yet to officially apply. The Gulf Cooperation Council holds Gatt observer status.

Congress rethink on illegal import fees

By **Nancy Dunne** in Washington

THE US Congress is weighing proposals aimed at revamping two fees on imports, both found to be illegal under the international trading rules of the General Agreement on Tariffs and Trade.

The Bush Administration has been anxious to avoid any suggestion that it is not supportive of the Gatt.

The two fees deemed illegal by the Gatt are the Superfund Petroleum Tax and a general 0.17 per cent levy on all imports to the US.

Mrs Carla Hills, the Trade Representative, has forwarded to Congress a proposed amendment to the petrol tax which would treat imported and domestically-produced petroleum equally by taxing both at 9.7 cents per barrel. This would raise the domestic rate from 8.2 cents per barrel and lower the rate on imports from 11.7 cents per barrel. The proceeds from the tax would go into the Superfund for the clean-up of hazardous wastes.

However, the proposal is expected to run into opposition from oil state representatives, like Senator Lloyd Bentsen, powerful chairman of the Senate Finance Committee.

The House Ways and Means trade subcommittee, meanwhile, has agreed to a compromise plan under which the 0.17 per cent "user's fee", based on the basic value of the product, is levied on imports. The fee is designed to pay the cost of Custom Services imports processing, but a Gatt panel found that it covered the costs of unrelated Customs functions like research and maintaining overseas offices.

Last year the user's fee raised $787m. The Gatt panel estimated that only $250m would be needed to cover Custom's costs.

The compromise, an interim plan to run through fiscal 1990, is expected to be submitted to a Gatt Council today. It maintains the current value-based tax, but caps the fee at $575 per entry. In the meantime, it authorises a six month study by the General Accounting Office to estimate the true costs of Customs' processing.

If approved by the Gatt Council, the user fee amendment will become part of the US Budget Conciliation bill.

China begins to feel the cold shoulder from abroad

The world's disapproval has grave consequences for the country's economic future, writes Steven Butler

JAPAN'S decision yesterday to suspend aid to China has highlighted the vulnerability of China's economy to the aftershocks of government savagery and political instability.

Although China's foreign economic relations, both trade and investment, are small in proportion to the entire economy, it is foreign involvement that is leading economic modernisation and in many cases is the key to growth.

Now the foreign sector is in jeopardy, both because of foreign government sanctions and because of the decisions of businesses. China is already having to pay higher loan rates in commercial markets and this could rise further to reflect greater risk.

China's leaders have repeatedly stressed that the economic open door policy will not change as a result of the turmoil in Peking and the impending change in leadership. Yet in Peking, the few foreign businessmen who have remained in China, or have returned, are still dazed and waiting for clear direction. "We're not sure what the goal posts are. We're not sure who the government are," says one.

Businessmen are also trying to count up the cost for China of what has happened and it looks high. Industry in Peking and Shanghai and much of the rest of the nation was brought to a standstill for days in some places, and weeks elsewhere. The nation's rail system was severely disrupted, as protestors blocked rail lines, and civilian air transport was crippled when the army commandeered aircraft to move troops around the country. Foreign vessels were, for a time, refusing to stop at Shanghai.

Although factories are working and transport facilities running again, the temporary cut-off of raw materials and semi-finished goods has led to clogging of the transport system, which was already working close to capacity.

In most economies, lost production can be made up by overtime but bottlenecks in China may make this impossible.

One banker estimates a loss in exports for the year of about 15 per cent and says supply bottlenecks may not work themselves out until the end of the year.

Overseas garment and toy merchants, whose orders are tied to seasonal peak demands, may be hit particularly hard, raising the possibility of contract disputes for late delivery. This will undoubtedly result in an immediate loss in some new orders.

However, redirecting large orders on short notice is not easy, particularly for garments, where other countries may not have the quota available under the Multifibre Arrangement.

One banker involved in trade finance says doubts about Chinese reliability are likely to show up in the long run as sluggish growth, in which companies merely try to diversify their exposure by ordering from several countries. The problem is that while Deng Xiaoping has proclaimed China's government to be stable, it looks anything but this to most observers.

Even more at risk than trade, however, is new joint venture investment. After a brief trickle of projects that are nearly out of the pipeline, foreign investment is expected to stop cold.

There are two reasons. The first is that many foreigners are now embarrassed about doing business with a government that slaughters its own people and government soft loan support may end.

A number of company representatives have returned to China because they have interests that have to be managed. But none is anxious to call attention to this because it is bad publicity and they are even more wary about Chinese attempts to use them for their own propaganda purposes.

Businessmen have turned up for seemingly innocuous meetings, only to find that it is a staged event for Chinese television, supposedly proving that foreigners have continuing confidence in the Government.

The Bank of China, China's foreign exchange bank, has summoned the foreign banking community to a meeting on Friday. Bankers are wary about attending and the Bank may find itself embarrassed by the turnout.

The second reason why foreign investment will dry up is that no one has confidence any more in the long-term stability of the Government. This is likely, at least, to shorten the period within which companies expect to have their investments paid back, meaning that heavy engineering project, steel or power generation for example, could now be out of the question.

Light industrial investments, where investments are paid back relatively quickly, however, could continue to be attractive.

For now, some businessmen have remained in the country because they are trying to manage a crisis. It is a tribute to the success of the open door policy that so many banks and industrial companies have established extensive operations inside China.

None the less, work has come to a halt in many places, for example at several large joint venture office, hotel and apartment complexes in Peking nearing completion.

The suspension of work, both because of supply problems and because foreigners working on the projects have gone home could delay completion dates by many months.

A banker involved in the World Trade Centre project believes rents could fall by about half from the current asking price of $43 a square metre per month. However, with a break-even rent at around $15, there is no question of the project's viability.

Beyond this, businessmen have been trying to sound out their Chinese counterparts about what is in store. One businessman has been able to meet his contacts and says they are extremely frank. They tell him that the door will remain open but just how far, and under what terms, they do not know either.

It is not the sort of answer that encourages anyone to want to do business in China.

Hundreds of Chinese students gather outside the Canadian embassy in Peking yesterday to apply for visas

Growth of Japanese money supply slows

By Stefan Wagstyl in Tokyo

THE growth of Japan's money supply slowed last month to its lowest level in over two years, as rising interest rates led to a decline in bank lending.

The money supply last month was 9.4 per cent larger than in May last year, according to figures published yesterday by the Bank of Japan, the central bank.

This compares with a 10.2 per cent year-on-year increase in April. The decline in the rate of growth was the highest since December 1987.

The sharpness of the decline underlines how forcefully the central bank was trying to curb money supply to forestall a resurgence of inflation, even before it raised the Official Discount Rate from 2.5 to 3.25 per cent at the end of May.

The central bank is looking for further reductions in the rate of money supply growth because it is concerned about the rate of increase in consumer and wholesale prices.

● Wholesale prices in Japan rose last month by 3.4 per cent over the same month last year, increasing fears that the recent jump in the US dollar is fuelling inflation.

Tha increase was substantially above the 2.5 per cent year-on-year rise recorded in April. The increase confirmed fears that Japanese prices are rising, irrespective of a once-off increase caused in April by the introduction of a 3 per cent value-added tax.

The main force behind the increase was a 10.6 per cent year-on-year increase in import prices.

Mr Ken Courtis, senior economist at D.B.Capital Markets (Asia), said that the figures showed the US was exporting inflation instead of goods.

About 82 per cent of Japanese imports are denominated in US dollars.

West Bank settlers turn on Shamir

By Hugh Carnegy in Jerusalem

JEWISH settlers in the Israeli-occupied West Bank yesterday turned angrily on prime minister Yitzhak Shamir, normally among their staunchest supporters, at the funeral of a settler stabbed to death allegedly by three Palestinians.

Hundreds of settlers howled down Mr Shamir's speech at the graveside, calling him a traitor and banging on his car as police and troops struggled to make a path for him.

They ignored efforts to calm them by Mr Ariel Sharon, the hardline trade and industry minister who has taken a strong stand against Mr Shamir's peace initiative aimed at ending the Palestinian uprising in the occupied territories.

Its opponents, inclnding a large chunk of Mr Shamir's Likud party, say it will lead to a loss of Israeli control over the territories. Mr Shamir faces a tough test of his authority when the party debates the initiative at a special convention on July 5.

Sri Lanka may take troops issue to UN

SRI LANKA will make an approach to the UN Security Council if India does not start withdrawing its 45,000-strong peace-keeping force by July 30, President Premadasa's deadline, Mervyn de Silva writes from Colombo.

The Foreign Ministry, as well as Sri Lankan Bar Associations, is consulting legal experts. A local lawyers' group has decided to file a petition in the World Court at the Hague.

The Government's position is that if the Indian troops do not pull out, India would be guilty of "an act of aggression".

Moscow to show Israeli films

ISRAELI films will be screened at the Moscow Film Festival for the first time this summer, a fresh sign of warming relations between two countries that have lacked full diplomatic relations for more than two decades, Reuter reports from Jerusalem. A visit by Soviet directors to last year's Jerusalem film festival spurred the showings, officials said.

De Klerk seeks to follow Smuts in Europe

Anthony Robinson on the South African caught between black hopes and white fears

MUCH hangs on the outcome of the four-nation European tour which Mr F.W. de Klerk begins today when he meets West German Chancellor Helmut Kohl and other senior officials.

It is a visit meant to demonstrate European encouragement for faster reform under a younger leader who has promised "a new South Africa".

It also offers an internationally inexperienced Mr de Klerk the chance to make personal contacts – he is also dne to meet Mrs Margaret Thatcher, the British Prime Minister, Mr Anibal Cavaco Silva, the Portuguese Prime Minister, and Giulio Andreotti, the veteran Italian politician – and, if all goes well, to become, in effect, the first "respectable" Afrikaner leader since Field Marshal Jan Smuts.

Marshal Smuts, who fought the British as a Boer war commander, later became a trusted wartime confidant of Winston Churchill.

In 1948, however, he and his United Party were defeated at elections which brought Mr de Klerk'e National Party to power on an apartheid ticket which led to decades of international opprobrium.

Mr de Klerk has been invited to the chancelleries of Europe largely because the party of which he is now leader is perceived by conservatives such as Mrs Thatcher and Chancellor Kohl to have changed under the decade-long rule of Mr P.W. Botha to the point where in many respects it resembles the old United Party as led hy Marshal Smnts.

It has moved so far from the racist ideals of classic Verwoerdian spartheid that half of the Afrikaner electorate has abandoned it in disgust. These NP defectors now support the Conservative Party ted hy Mr Andries Treurnicht or the further-right Afrikaner Resistance Movement (AWB) and others on the demented fringe of Afrikaner tribalism.

At nationwide municipal elections last October the CP won nearly 33 per cent of the white vote, up from 27 per cent at the last general elections in May 1987.

If repeated at the coming general elections on September 6 this would give the CP around 45 of the 166 elected seats in tha white House of Assembly compared with 25 in the outgoing parliament.

At the last general elections the NP, still led by President Botha, was able to compensate for the mass defection of Afrikaners by picking up hundreds of thousands of votes from "English-speakers" – a vague term which embraces all non-Afrikaans speaking whites.

The lesson learnt the hard way by Marshal Smuts in the 1948 election however was that a vaguely "reformist" party supported by a volatile mix of Afrikaners and English speakers, as the NP now is, tends to be a fragile alliance at best, vulnerable to attack from the "conservative" right, and inadequate as a power base from which to embark on the fundamental changes to the balance of power and system of government which is on the horizon.

Unfortunately for Mr de Klerk his predecessor so alienated influential sections of "verligte" or enlightened Afrikanerdom and so frustrated English-speaking "reformers" – men such as Mr Denis Worrall, the former NP senator and Ambassador to London – that he also gave a powerful stimulus for the creation of a tougher, more united "left".

Mr de Klerk's best hope of retaining these waverers is to convince them that, in effect, a vote for the newly formed Democratic Party (DP), by splitting the reformist vote, would translate into a vote for the CP.

It is virtually inconceivable that the NP will lose its position as the biggest party. But it is not inconceivable that parties to its right will pick up more than 30 per cent of the vote or that the DP will win close to 20 per cent on the left.

Given the vagaries of the first past the post electoral system, that should still see the NP re-emerging after September 6 as the ruling party and Mr de Klerk as Executive State President. He would be head of state, government and party.

Mr de Klerk, unlike his predecessor, lacks the metaphorical "thick wrists" of traditional Afrikaner leaders and relies more on guile and appeals to reason and common sense.

His basic message is that the NP as presently constituted represents the moderate centre charting a difficult middle course between white fears and black hopes and best capable of handling the difficult power sharing negotiations with blacks which lie ahead.

It is only when he returns home to address the party's federal council in Pretoria on June 29 that he will spell out the party'e election manifesto.

But it is already clear that the main issue that white voters will have to decide is, first, whether they are prepared to share power with blacks and, if so, whn would be best equipped to pursue the negotiations.

If Mr de Klerk is pressed by his European hosts to act more boldly and speed up the pace of reform he is likely to ask them to consider that any responsible leader in South Africa not only has to prevent another hteck revott bnt also the equally, if not more dangerous, prospect of an armed white reaction to fears of a sell-out in Africa's last white redoubt.

De Klerk: chance to make contacts

THE lifting of South Africa'e state of emergency, release of political leaders and an end to the ban nn their parties remained pre-conditions to any talks with Pretoria, Mr Oliver Tambo, president of the African Natinnal Congress said yesterday, Michael Holman, Africa Editor, writes.

In a speech in Stockholm Mr Tambo dismissed suggestions that the emergence of Mr F W de Klerk as the probable new President of Sonth Africa marked the start of fundamental political changes.

"All the evidence indicates that as yet Pretoria's interest in negotiations is limited to finding ways of securing its own interests, and deflecting domestic and international pressures by seeking tha involvement of black agents in the implementation of apartheid," said Mr Tambo.

● President P W Botha, the outgoing South African president, yesterday signalled his continuing refusal to support Mr de Klerk, who manoeuvred him out of power earlier this year, writes Anthony Robinson in Johannesburg. Mr de Klerk said the farewell banquet due to be given by the party for Mr Botha at its Federal Congress next week had been cancelled after talks with the President.

Hawke asks for end to barriers

By Ray Bashford

MR BOB HAWKE, the Australian Prime Minister, plans to push for greater freedom for Australian companies to invest in Britain during his four day visit to London.

Speaking to 100 investment analysts in London yesterday, Mr Hawke suggested that the British Government was more protectionist than Australia because it was easier for British companies to invest in Australia, than for Australians to invest in the UK.

"Prima face, there is a greater level of barrier in Britain than there is in Australia," he said.

Several big Australian companies, inclnding Elders and Goodman Fielder Wattie, have run into severe problems with the Monopolies and Mergers Commission in attempts to acquire British companies.

Mr Hawke will meet Mrs Margaret Thatcher, UK Prime Minister today as well as other government officials. Discussions between officials of the Department of Trade and Industry and its Australian equivalent have already taken place on takeover regulation in the wake of these rejections during the past 12 months.

Many Australian companies have built up important holdings in British companies and plan to continue this investment as a means of breaking the limitations on growth imposed by the size of their domestic market.

Mr Hawke presented the analysts with in an upbeat message for the prospects for the Australian economy in an attempt to attract increased foreign investment. He accepted that the economy was facing economic problems but he was confident that his government would be able to manage a "soft landing."

He said the government had created a more harmonious climate in industrial relations and deregulated the banking and financial system in one of the world's most politically stable countries.

Investment in Australia provided a springboard into the Asian market which Mr Hawke described as the "fastest growing area of the world."

Mr Hawke concluded one of his answers hy advising the analysts that they "should be in there (Australia) like a big, brown, hungry dog."

India to set up three more oil refineries

By K.K. Sharma in New Delhi

INDIA HAS decided to establish three more oil refineries in the next decade in addition to three on which work is in progress.

Each will have a refining capacity of 6m tonnes. Tha Government hopes that the anticipated shortage of 24m tonnes of refining capacity by the turn of the century will thus be covered.

The decision to set up the three new refineries means that India has abandoned a proposal to use the surplus refining capacity in the Gulf. This would have been cheaper than setting up new refineries and eased the problem of finding funds for heavy investment. But refined petroleum goods from the Gulf were not needed in India and the Government felt it should not be dependent for such strategic needs on outsiders.

However, the prohlem of finding funds for the investment remaine, even though one of the refineries will be set up in the first half of the 1990s and the other two in the late 1990s. The investment required for each unit is Rs150bn (£6bn).

$6.7bn aid for India

DONOR nations have agreed to pledge $6.7bn (£4.3bn) of aid to India this year to finance its development programme, a rise of 6 per cent, George Graham writes from Paris. The India aid consortium, grouping 13 governments and multi-national institutions, met yesterday under the chairmanship of the World Bank.

Iranian war refugees 'to return to port homes'

RESIDENTS of Iran's oil refinery city of Ahadan and Khorramshahr port, driven from their homes by the war with Iraq, will start returning on Saturday, the Iranian news sgency IRNA said yesterday, Reuter reports from Nicosia.

The agency quoted a statement by the prime minister's office as saying about 130,000 were expected to have returned to the two cities by September 22, nine years after Iraqi troops crossed the border for a war which lasted eight years.

Khorramshahr, Iran's biggest commercial port on the Shatt al-Arab river, was practically razed during 19 months of Iraql occupation early in the war.

Iranian officials said 45,000 houses were damaged in Abadan which was pounded daily hy Iraqi artillery.

Up to 10,000 Iranian workers are repairing Abadan's oil refinery which started partial operation in April processing 130,000 barrels of crude oil per day – a fifth of its pre-war capactty which made it tha largest refinery in the world.

The Tehran statement said 24hn rials ($320m) hsd been allocated for reconstruction projects and public services in the two cities.

Gulf war fighting ended through a UN-brokered ceasefire last August.

Nigerian state frees protesters

THE military governor of Nigeria's Bendel State has ordered the release of 100 people detained since riots last month which killed at least five peopla in the state capital, Benin City, Reuter reports from Lagos.

A statement from Governor Tunde Ogbeha, reported on Nigerian radio yesterday said 254 people had been arrested in the student-led protests against government austerity policies.

It said those to he released had been cleared of involvement in the riots. Others were still being questioned.

A wave of violent protest against soaring food prices and mass unemployment spread from Benin, 320 km east of Lagos, to several other Nigerian cities between May 26 and June 2.

Police officially put the total number of dead at 22.

Striving for equality in a land where the temples of sati rise again

K.K. Sharma in New Delhi looks at progress towards sexual equality in India where many women still observe the custom of purdah

IT IS an irony that as tha Indian Government continues to push through programmes for modernisation and for the elevation of the status of women in society, the ancient, but banned, custom of *sati* (self immolation) is still venerated in many parts of Indie. In some areas, its practice is actually increasing.

Sati is the custom by which women were required to kill themselves on the deaths of their husbands, on the grounds that there was no longer any reason for their living. It was banned by the British more than 100 years ago, but *Sati* temples bave sprung up in many parts of Rajasthan state and neighbouring Haryana, and it is likely that they exist in many other parts of northern India, where the custom was prevelant before it was banned.

The re-emergence of these temples coincided with Indian government measures to reserve 30 per cent of posts in village *panchayats* (local bodies) for women in an effort to raise their stetus, within a wider, more general move to strengthen rural democratic institutions.

The differences between the two reflect tbe problems involved in modernising a society still ruled hy ancient beliefs and customs and has led to striking contraets. India's strongest and most controversial Prime Minister was s woman. Women bold top posts in the country's cabinet and civil service. Indie bas eminent women police officers, officials, clerks and tbey are represented in the entire range of officialdom and professions.

Yet tbe majority of women in villages still observe *purdah* (the veil) which prevents tbem from appearing in public without covering their faces. They cannot eat before the men in the family have finished their meals and they cannot talk to them face-to-face.

In some instances, women can be subject to horrifing brutalities if they do not bring large enough dowries – although the dowry system is, like *sati*, officially banned. There are increasingly more reports of disgruntled husbands and in-lews barassing new brides over their dowries, together with a markedly higher incidence of hride burnings – women set alight after being soaked in kerosene.

Also growing is the number of cases of rape. In 1983, 5,298 rape cases were reported in the country. In 1984, the number went up to 6,203 and in 1985 to 6,356 – a 20 per cent increase, et least of reported cases, in three years. The number of cases of molestation went up from t1,814 in 1983 to t5,160 in 1985, a 28 per cent increase.

Sucb is the strength of feeling ebout tbese issues that many womens' rights organisations have been demanding a ban on pre-natal sex tests. These are often used for female foeticide, a practice so widespread since the hirth of a girl is considered s hurden, that some people half jokingly say that women could become a threatened species in India.

It was 14 years ago that the first comprehensive national report on the status of women, entitled Towards Equality, was publisbed. Many politicians and officials – male and female – ecknowledge that there has been no apparent intervention or improvement in the situation of women. The "priority areas" identified for action at that time have not been tackled – prompting some to question just how much priority women'e issues will ever receive.

As the controversial National Perspective Plan for Women, published by tha Government last year, observes: "For the majority of women in the country, there is more work in the country than wages, more load than capacity, more compulsion than choice."

Towards Equality pointed out in 1975 that "discrimination between the sexes in the allocation of scarce resources in various fields such as nutrition, medical care and education is directly related to the greater desirability for a son and the transferability of the daughter."

The patrilineal system of descent followed by most Indians relegates the girt and woman to a position of social inferiority, something that is no better than a "bird of passage." The report said: "Full equality of the sexes can hardly be possible in e legal system which permits polygamy and a social system which tolerates it."

This has resulted in the perpetuation of female bondage, forced prostitution, child marriage and female foeticide

The process of modernisation in India has not improved matters. As the National Perspective Plan says: "Modernisation and mechanisation are tending to marginalise women in many sectors.

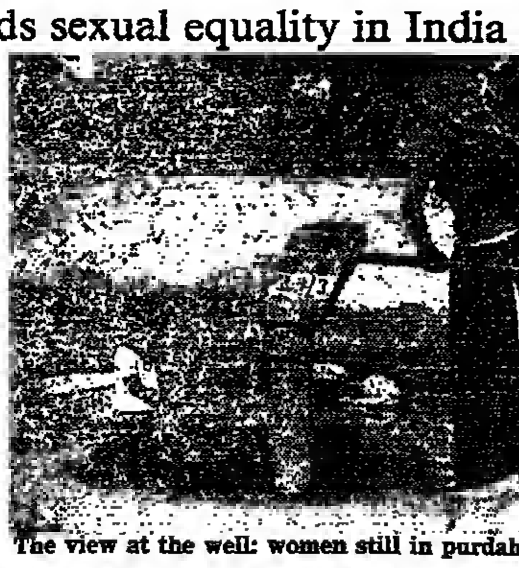
"However, the Government's Perspective Plan, althongh strongly criticised by women'e groups, suggests there is growing concern over the issue of the status nf the Indian woman.

There are now women-oriented schemes in special missions to promote education, health, agricultural production and village development.

Education for women is now compulsory – although this rule is not enforced even for males – and several changes have been made in personal, criminal and labour laws governing women. Laws have been passed such as the Dowry Prohibition Act, the Equal Remuneration Act and Prevention of Immoral Traffic Act.

Women's groups say these have been hrought about because of concerted efforts and demands of women's organisation and not because of any vigorous policies pursued by the Government, even though it has opened a special department for women's welfare. Even officials concede that much remains to be done.

Says Ms Usha Rai, a champion of women's rights: "The battle for status, respect and dignity for women continues. It almost seems as if each step forward results in two steps hackwards fnr the women's movement."



The view at the well: women still in purdah

Pentagon to bear full cost of weapons development

By Lionel Barber in Washington

THE US Defence Department has decided to abandon the Reagan administration's policy of requiring defence contractors to help finance the development of expensive weapons systems. Instead it is to bear the cost itself.

The new policy could mean substantial savings for the defence industry, which has long complained it could not stand the cost of funding risky development without a guarantee of production contracts.

However, the increase in federal funds for development is bound to increase further pressure on the departmental budget and could lead to cancellation or deferral of planned weapons systems.

The architect of the new policy is Mr Donald Atwood, who joined the Pentagon as Deputy Secretary after a career at General Motors. He argued that forcing defence contractors to share costs – by issuing fixed-price development contracts – encouraged companies to skimp on research and testing of weapon systems, and led to confrontation between the Department and contractors.

In the Reagan years, when the industry enjoyed a bonanza of giant contracts, there were notable cost overruns in new weapon systems, which were also plagued by poor quality.

Congress may seek to refine some departmental proposals, though Democrats and Republicans concede that public confidence in military procurement practices has been much eroded by a succession of scandals climaxing in the Justice Department's Ill-Wind investigation of fraud and bribery involving contractors and former Pentagon officials.

Mr Atwood's efforts to reshape policy amount to an admission that the former administration's defence team, led by Secretary Caspar Weinberger, failed to run an efficient procurement policy. Most of the major weapons contracts have already been awarded so the General Motors touch will take time to have an effect.

One effect of the proposed shift will be to give the Pentagon a greater role in policies aimed at improving the US industrial base.

AIDS progress claim by Cuba

CUBA'S policy of holding AIDS patients in quarantine at a special sanatorium has helped considerably in reducing the spread of the disease, Reuters reports.

"Without this we would have thousands of AIDS carriers by now," instead of the current 300, Deputy Health Minister Hector Terry said in a special television programme.

The policy of enforced isolation of all Cubans afflicted with Acquired Immune Deficiency Syndrome has been described as totalitarian by foreign critics.

The documentary was filmed at the Los Cocos sanatorium, a former hacienda in Santiago de las Vegas, 35 km from Havana.

A total of 258 patients live there in air-conditioned bungalows and apartments. Some 100 of them are soldiers who had served in Angola.

Fears of a return to unrest in Argentina

By Gary Mead in Buenos Aires

FEARS are growing that Argentina may soon face a resumption of last December's army rebellion, as those officers and troops loyal to rebel commander Colonel Mohamed-Ali Seineldin are showing signs of impatience with the army leadership under General Francisco Gassino.

Last December Colonel Seineldin led a four-day mutiny of elite soldiers to press home a series of demands against the Government of President Raul Alfonsin.

Those demands amount to what Col. Seineldin and his supporters call a "vindication" of the role of the armed forces between 1976-1983, as well as during the Falklands Islands war between Argentina and Britain in 1982.

Col Seineldin is now making clear that almost seven months have elapsed without progress on the demands.

In particular the rebels want to see an end to all civil legal action against the 25 senior officers accused of human rights' abuses during the so-called "dirty war" in the 1970s.

Neither out-going President Raul Alfonsin nor incoming President Carlos Menem wish to take the responsibility for acceding to Col Seineldin's demands. However, his supporters are now indicating a readiness to resume where they left off last December.

Industry in US sets up oil spill organisation

By James Buchan in New York

THE US oil industry, deeply embarrassed by the wreck of the Exxon Valdez tanker off the Alaskan coast in March, yesterday announced a $250m programme to improve its response to big oil spills.

Mr Allen Murray, chairman of Mobil, the second-largest US oil company, said yesterday the industry would finance and operate a new national organisation which would take "aggressive action" to prevent oil spills, to respond to them once they had happened, and to conduct research.

The Petroleum Industry Response Organisation (Piro) will establish five regional response centres across the US, Mr Murray said. The project, which will cost "more than $250m over the first five years", will be financed through levies on the freight and landing of crude and fuel oil at US ports.

Mr Murray is chairman of a taskforce set up by the American Petroleum Institute, the industry's club, soon after the Exxon Valdez ran aground and spilled millions of gallons of crude. The taskforce included Exxon, four other US majors and the US operations of BP and Shell.

According to the taskforce's report, the new response organisation will cost $70m to $100m to launch, with annual costs of $30m to $100m.

Mr Murray said oil companies would provide the equipment to the event of a big spill. However, apparently in response to charges that Exxon bungled its response to the Alaskan accident, Mr Murray said the clean-up would be managed by the US Government.

Proving time in court for Reagan's legacy

Lionel Barber examines liberal worries over the highest US tribunal

CONSERVATIVES proclaim it as the true legacy of President Reagan: an inbuilt majority on the US Supreme Court which can roll back liberal gains on abortion, church-state relations, criminal justice and civil rights.

The next three weeks should indicate whether this conservative dream can become reality. The court will pronounce soon on the most controversial case of its current term – a Missouri law that challenges the landmark Roe vs. Wade decision of 1973 which struck down state laws that had banned abortions.

Several recent rulings by the Court on civil rights – which, like abortion, are an acute issue for conservatives – have dismayed liberals and renewed fears that the justices indeed have shifted decisively to the right. Any dilution of Roe vs. Wade is bound to be taken as final proof that the conservatives have won the day.

So it appears in the hothouse atmosphere of Washington, where the press and television love to declare winners and losers, even in the subtle area of constitutional interpretation. In fact, liberals may be over-reacting. First, there is no obvious reason why the court should equate its thinking on abortion with its rulings on civil rights; second, the civil rights judgements themselves may not be as sweeping as was thought.

The most important case concerned a group of white male firefighters in Birmingham, Alabama, who claimed the city had entered an agreement that favoured black recruitment. They said the agreement amounted to "reverse discrimination" against them. The court agreed, delivering a blow to affirmative action settlements approved by various courts, and opening the door to future litigation.

In a separate ruling the previous week, the court made it substantially easier for employers to defend hiring and promotion practices that do not favour women and racial minorities. Outstanding in each decision was the division of four ageing liberal justices from a conservatively inclined majority of five judges, three of whom were appointed by Mr Reagan.

Justice Anthony Kennedy: A second choice by President Reagan who is turning out conservative on the bench

What worries liberals is any sign that the conservatives, led by Chief Justice William Rehnquist, a Nixon appointee, begin to vote *en bloc*, for this would amount to a permanent 5-4 majority. The same fear led to the denunciation and eventual defeat, in the US Senate, of Mr Reagan's nomination of Judge Robert Bork in 1987. The irony is that the second choice, Justice Anthony Kennedy, while less intellectually aggressive, is proving conservative in his opinions. Hence, the howls of protest over the recent rulings.

A more sober interpretation is that the court is not intent on shredding the civil rights legislation of the 1960s, but does wish to narrow its scope, particularly regarding affirmative action, employment quotas, and set-aside agreements which reserve specific levels of public sector business for minorities. Such programmes have come under fire, not only from resentful white litigants, but also from some blacks who consider them demeaning.

However, as Mr William Raspberry, a Washington Post columnist, noted last week, the problem is that the court might be eroding the US consensus that blacks and women have been victimised by discrimination, that the balance needs to be redressed, and that the courts, not the streets, are the appropriate place to enforce the remedy.

Extending the argument to abortion, critics argue that, if the court tinkers with Roe vs. Wade, it will leave abortion vulnerable to increased regulation and therefore to political conflict. This would apply to any judgment which sought to hand back regulation of abortion to the state legislatures, which some experts believe is the most likely outcome of the present debate.

Whatever the outcome, the controversy suggests that, while President George Bush pledges co-operation with the Democratic majority in the US Congress and plays down ideological conflict, the forum for divisive politics has become the US Supreme Court.

Business investment lifts GDP in Canada

Canada's real gross domestic product expanded at an annual rate of 3.6 per cent in the first quarter, led by strong business investment, Reuter reports from Ottawa.

The GDP implicit price index rose by 1.5 per cent in the first quarter, compared to an average quarterly pace of 1.1 per cent in 1988.

Final domestic demand grew 1.2 per cent after inflation, there having been a 1.4 per cent gain in the fourth quarter of 1988. Consumer spending slowed to a 0.4 per cent gain from a 1.4 per cent rise in the previous quarter, while business investment rose 3.0 per cent – up from 2.6 per cent.

Canada posted a seasonally adjusted balance of payments deficit in the current account of C$3.7bn ($3.17bn) in the first quarter – down from a deficit of C$3.9bn in the fourth quarter of 1988.

Dominican clashes

Armed policemen and soldiers patrolled the streets of Santo Domingo, capital of the Dominican Republic, yesterday after clashes with strikers which left three people dead, several injured and hundreds arrested, reports Canute James in Kingston.

The violence came on the first day of a two-day general strike called by trade unions to protest at government economic policies, and to support demands for a reduction of food prices and a doubling of the national minimum wage.

Strikers blocked roads in the capital and other cities of the Caribbean nation of 6m people, crippling commercial life in many areas.

Late on Monday President Joaquín Balaguer met church leaders, who offered to mediate, but it was not clear yesterday what role the church would be allowed.

Brazil banker quits

Mr Elmo de Araújo Camões resigned late on Monday as president of Brazil's Central Bank – the first senior official to be felled by the crisis last week in the stock markats, John Barham writes from São Paulo.

He was forced to quit because a brokerage he owns sustained heavy losses.

On June 12, the Government had to close the markets after Mr Naji Robert Nahas, a leading speculator, failed to honour $31.1m in debts. Regulators feared severe financial repercussions and imposed a 10 per cent trading limit for most of last week.

A Central Bank team is expected to close as many as 10 brokerages, including one owned by Mr Camões, He would have been in the difficult position of presiding over the liquidation of his own firm.

Minimum wage up

President José Sarney of Brazil has decreed an 85 per cent increase in the national minimum wage, to the equivalent of $108, ending weeks of political wrangling over wage policy, reports John Barham.

Mr Sarney vetoed a bill that granted a 3 per cent real rise in the minimum wage each month, but agreed to monthly cost-of-living adjustments. More than half the Brazilian labour force receives the minimum wage or less.

The president ordered 25 per cent of the new wage be considered a one-off adjustment to avoid widening the social security system's budget deficit. Welfare benefits are linked to the minimum wage. Mr Sarney's decision is subject to ratification by Congress within 30 days.

Trade surplus down

Brazil'a trade surplus was $1.387bn in May – 21 per cent less than a year earlier – because the Brazilian new cruzado has become overvalued. The Government has resumed daily devaluations of the currency to bring domestic and external prices closer together.

The country has built up a $7.02bn surplus so far this year, its strongest performance in 10 years, despite declining trade surpluses in recent months. The Government expects a $16bn surplus for 1989.

Cuban drug promise

The Cuban Communist Party promised yesterday to reveal all the details in the case of the much-decorated General Arnaldo Ochoa Sanchez, arrested on drug and corruption charges, Reuter reports from Havana.

A brief party statement on the front of the official newspaper Granma said complete information would be made public within a few days.

Gen Ochoa and six alleged accomplices, including a senior Interior Ministry official, have been accused of links with international drug traffickers.

Fast-growing Chile steps on the brakes

Barbara Durr on a hot economy

THE DIN of drilling and hammaring that resounds throughont the business and middle-class residential district of Santiago these days is likely to fade soon – to the relief of many an ear: the construction industry is expected to be the first victim of the Chilean economy's deceleration.

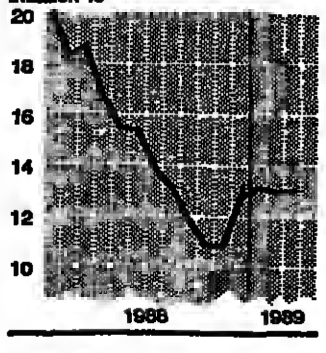
A fizzing annualised 9.4 per cent pace of economic growth during the first quarter has seen officials put on the brakes, albeit gently. The controlled devaluation of the peso is to be speeded np slightly over the next month, the real annual interest rate on 90-day central bank notes has climbed half a percentage point and rediscount rates by 0.04 points.

Mr Francisco Rosende, manager of studies at the central bank, admitted the steps were small but said: "We are sending a signal to the market, an important signal."

The central bank is trying to wrestle growth this year down to 6 per cent and inflation to 15 per cent. The bank recently had to revise its projected gross domestic product growth figure up from the 4 per cent negotiated with the International Monetary Fund last year.

Chile

Inflation %



A fund mission was in Santiago at the end of last month to review the economy's performance and consider the possibilities of extending an IMF programme beyond August, when Chile's extended fund facility will run out.

Until now the country has been on course with its key targets. Last year's GDP growth rate was an impressive 7.4 per cent, inflation 12.7 per cent, current account deficit 0.8 per cent of GDP and balance of payments $732m in surplns. A high copper price boosted exports to $7bn.

The Government would like to extend its agreement with the fund for another year but elections in December are to bring in a democratic government next March and the anthorities are not keen to agree to IMF targets that their successors might reject. It is more likely that an extension until the end of this government will be settled on, giving incoming officials tima between December and March to negotiate their own targets with the fund.

At the moment, the Government's critics in the opposition camp are applauding its prudence in economic management. They are hoping it will continue to absorb last year's excessive monetary growth – a factor they blame for much of the economy's overheating – and keep a tight rein on inflation, which already is running at 6.3 per cent for January to May.

The central concern of leading Christian Democratic economists – such as Mr Alejandro Foxley, who is widely tipped to be the next finance minister if the opposition wins, as expected – is not to inherit a slumping aconomy. "Snddenly, everyone is very orthodox," quipped Mr Rosende.

The business community is expecting that the year will end with growth closer to 7.5 per cent.

Mr Fernando Aguero, president of the Society for Promoting Manufactures, says construction, always sensitive to interest rates, is expected to fall from a projected annualised growth rate of 14 per cent to the first half-year to just 3 to 4 per cent in the second.

Agriculture, originally projected to expand at a rate of 4 per cent, will probably reach only 1 per cent, severely hit by the row over poisoned exported grapes, and by drought in central regions.

Overall, a confident Mr Aguero said, the industrial sector would grow at a rate of 9 per cent this year. The slowdown to some domestic manufacturing, such as consumer durables, would be offset by acceleration of export industries. Imports, which in the first quarter were 35 per cent up on those of the equivalent period last year, were expected to fall dramatically.

Talks between business and opposition leaders are going on quietly. The opposition wants to assure business that there will be a continuation of free market policies and tight controls on macro-economic balances.

But the incoming government will face an avalanche of social demands. The backlog of needs postponed by the military regime is especially acute in health care and education.

Public spending on health care, for example, has declined steadily since 1981. Real investment in public health last year was only 58 per cent that in 1981. According to Mr Eduardo Aninat, economic consultant to business and a participant in opposition discussions on future policies, moderata tax increases and some juggling of ministerial budgets are expected so as to finance new social expenditure.

Meanwhile the price of Chile's most important export, copper, is expected to decline dramatically by next year; also many foreign debt payments are bunched in 1991 through 1994. One of the new government's first tasks will probably be debt restructuring.

UK NEWS

London faces stoppage of underground system and lightning action by bus workers

Britain braced for rail strike as appeal fails

By Fiona Thompson, Raymond Hughes and Charles Leadbeater

BRITAIN's first national rail strike in seven years began at midnight last night after British Rail lost its bid to ban a 24-hour stoppage by the National Union of Railwaymen.

Three appeal court judges, led by Lord Donaldson, the Master of the Rolls, unanimously dismissed BR's appeal against the High Court's refusal on Monday to grant an injunction banning the strike.

Tha NUR said the strike would be 100 per cent solid. "No trains will run," said Mr Jimmy Knapp, general secretary.

London commuters will face a particularly chaotic journey to work as the NUR's London Underground members have also called a 24-hour strike for today over management plans to *introduce radical changes to* working practices.

The union and London Underground spent yesterday at the conciliation service Acas and plan to meet again later in the week, but the talks had not progressed enough last night to avert today's stoppage.

London bus werkers also looked set last night to call a lightening 24-hour strike today in support of their 14 per cent pay claim.

The capital will certainly bear the brunt of the disruption from the strikes. British Rail carries 480,000 commuters a day into the capital and London Underground carries 2.8m passengers.

Hotels were last night crammed with staff spending a night away from home to make sure they can make it work this morning. Virtually every hotel bed in the city has been booked by companies, which, like Lloyds Bank, have been planning for several weeks, how to get key staff to work, according to specialist hotel booking agencies.

Stock Exchange computer staff spent last night sleeping close to their systems and 500 key staff are being bussed in from pick-up points along the M25 London orbital motorway.

London police headquarters warned that London parking restrictions would not be lifted and cars parked illegally would be moved.

Hospitals plan minimum cover for patients, although some such as University College offered staff free accommodation for the night.

The Royal Mail warned of inevitable delays to letters although it is switching to road distribution.

Chambers of Commerce in the Liverpool, Leeds and Manchester, the three main northern connurbations, expected most businesses would cope. In common with Birmingham, all three have more developed road systems.

A special hotline has been set up by the RAC to help motorists get around the expected traffic chaos.

British Rail said last night it had asked Acas, the conciliation service, to approach the NUR about setting np peace talks over the rail dispute.

"The issues will only be resolved by talking," BR said after the ruling. "The Board is ready at any time for such talks."

Mr Knapp said any approach would be considered but BR needed "to be willing to make concrete suggestions on pay and bargaining procedures."

The union's 70,000 members voted by 29,675 to 20,704 to take the strike action over a rejected 7 per cent pay offer and the abolition of national pay bargaining.

Mr Knapp warned that the NUR executive meeting tomorrow morning would be considering further action "if we don't see a change of attitude" from BR. The union had a mandate for 24-hour strikes and an overtime ban. Lord Donaldson dismissed British Rail's argument that the NUR's strike ballot was invalid because, it claimed, about 200 union members had been deprived of the chance to vote.

The NUR had complied with the balloting law requirements, he said. It had established which of its members it wanted to call out on strike and then done all that was reasonable practicable to see that those entitled to vote had been given the opportunity to do so.

Lord Donaldson stressed that the court was not concerned with whether BR or the union was right in the dispute – or with whether it was "sensible" for the union to call the strike.

"What we are concerned with is whether the NUR has complied with the law. If they have then it is the duty of the courts to protect the union's right to take industrial action – however unpopular this may be with the travelling public, with industry or with the Government."

BRITISH RAIL

	1983	1988
Total passenger journeys per year	695m	727m
Daily rail journeys into London	386,000	458,000
Total rail staff	155,423	133,587
Number of drivers	21,842	18,184
Number of guards/ conductors	11,323	9,562
Train miles per member of staff	1,695	1,987
Pay for drivers Basic p.w.	£110.40	£154.95
Average p.w.	£164.03	£294.90
Average hours per week	44.3	47.1
Pay for guards Basic p.w.	£86.36	119.60
Average p.w.	£146.10	£253.15
Average hours per week	47.7	49.85

LONDON UNDERGROUND

	1984	1989
Number of peak hour trains per day in service	451	476
Number of passenger journeys a year	672m	825m
Number of drivers	2,129	2,624
Number of guards	2,296	1,066
Drivers average weekly pay	£207.35	£291.12
Guards average weekly pay	£164.16	£201.31
Average hours per week	44-45	44-45
Staff per million passenger miles	6.7	5.1

Ports face threat of standstill as court lifts ban on action

By Jimmy Burns, Labour Staff

BRITAIN'S ports are once again facing the threat of widespread disruption after the country's highest court of appeal yesterday lifted an injunction preventing the Transport and General Workers' Union from organising a national docks strike.

The TGWU, Britain's biggest union, challenged in the Law Lords an earlier Court of Appeal decision banning the strike on the grounds that the dockers were not in breach of statutory duty by striking.

The Lords' hearing also hinged on the the appeal judges' concern that insufficient consideration had been given in a previous High Court case to the negative effect that a docks strike might have on the "public interest."

Mr Ron Todd, the general secretary of the TGWU, last night said that the union would now organise a national strike ballot to back up dockers' demands for an agreement to replace the Dock Labour Scheme which regulated employment and working conditions in most of Britain's ports. The Government had announced on April 6 that it planned to abolish the scheme on the grounds that it maintained restrictive practices.

Mr Todd said after the Lords' ruling that it was not too late "even at this eleventh hour" for port employers to agree to negotiate a new agreement.

The National Association of Port Employers (Nape) said that it was not prepared to negotiate a new agreement.

Mr Stuart Bradley, Nape's vice-chairman and managing director of Associated British Ports, the major port employer, said: "A national strike would be quite futile. It will not change the employers' determination that we will not replace by agreement what Parliament is taking away by removing the statute."

Some port employers believe that the recent unofficial docks strike demonstrated deep divisions among dockers which will undermine the effectiveness of an official national strike. The unofficial strike, called in defiance of union instructions, was called off by militant shop stewards on Monday after support had dwindled to just over 2,000 dockers in three ports.

However, TGWU officials said they were confident that a majority of dockers would vote to favour of strike action.

Schools to introduce technology studies

By David Thomas, Education Correspondent

TECHNOLOGY and design will for the first time form a key part of education in England and Wales from autumn next year under plans endorsed yesterday by Mr Kenneth Baker, Education Secretary.

All schoolchildren from the age of five to 16 will have to follow a centrally-prescribed course of technological studies stressing close links between education and business.

The proposals, designed to overcome the long-standing bias of British education against technology, were made in a report published yesterday by *a committee of the National* Curriculum Council, the body charged with introducing a new national curriculum.

Mr Baker backed the report's conclusions. However, Mr Doug McAvoy, general secretary designate of the National Union of Teachers, accused the Government of providing insufficient resources to deliver the report's objectives.

The plan is to phase the recommendations in from September 1990, starting with five, seven and 11-year-olds.

Sweeping away the dust of neglect, Page 18

Delors wins support from unlikely source

By Peter Norman, Economics Correspondent

THE Delors Committee report on economic and monetary union in the European Community has been given a boost from a most unlikely quarter – a cross-party committee of British MPs.

The Conservatives, still reeling from its defeats in the European Parliament elections, has had to swallow another humiliation after failing to muster enough votes to block a House of Commons Treasury and Civil Service Committee report backing union.

"We do believe that it is both possible and desirable for the member states of the EEC, including Britain, to work towards the creation of monetary union, a single currency and the formation of a European Central Bank," the MPs' report said. It did stress there was "no need for central EC control over member states' budget policies, as advocated in Delors, but continued: "We believe that the time is now right for Britain to make this historic commitment."

With Mrs Margaret Thatcher, the Prime Minister, still balking over whether the time is right for Britain to join the exchange rate mechanism of the European Monetary System, the endorsement of such far-reaching sentiments by a committee with a built-in Conservative majority is strange.

But the outcome of the committee's deliberations appear to be the result of a cock-up rather than conspiracy.

Two Tory committee members were absent when the report was debated on Monday. A third stormed out of the meeting before the votes were counted after passionately invoking the Henry V's victory at Agincourt against the French and other examples of Britain's island heritage.

That left just two Conservative MPs facing a united front of four pro-Delors Labour members and the sole Democrat on the Committee. Mr Terence Higgins, the Conservative Committee Chairman, is only allowed to vote when there is a tie. In the committee meeting on Monday, he was unable to exercise that privilege.

Arms cuts 'best help to perestroika'

By Michael Cassell

THE disarmament process represented the fastest and most effective way for the West to help the process of reform within the Soviet Union, Mr Neil Kinnock, the Labour leader, claimed yesterday.

Mr Kinnock, who was addressing the Socialist International congress in Stockholm, said that a vital requirement for the reforms being pursued by Soviet President Mikhail Gorbachev was the transfer of money, technology and brains away from armaments and into production and consumption.

"That shift, and the way in which it would stimulate faster progress to prosperity and freedom is the surest road to security, the best means of ensuring that liberalising change in the Russian empire is not accompanied by turmoil and instability," he said.

Mr Kinnock said the West had the closest vested interest "of stability, security and economic prosperity" in ensuring that the Soviet Union and its allies made the leap from a command economy to a mixed economy and from a single party system to pluralism.

The problem, however, was that it was a physical impossibility for any leap to be made slowly.

It was essential, therefore, that the West did everything possible "to ensure the take-off is sure and the landing is certain and stable."

Siemens to pay UK royalties

By David Fishlock

SIEMENS, the West German electronics group, has agreed to pay Britain royalties on sales of its nuclear magnetic resonance equipment for medical diagnosis, following lengthy negotiations with the British Technology Group.

It means that Britain will receive royalties on about two out of every three copies of this best-selling diagnostic system made worldwide.

Siemens, which recently announced the purchase of Oxford Instrument's manufacture of magnets for these instruments, is believed to have the second-biggest market share, after General Electric of the US.

BTG holds a portfolio of 20 academic patents from the universities of Nottingham, Aberdeen and Oxford, and has negotiated royalty rights successfully with General Electric, Hitachi, Toshiba, Asahi and Shimadzu in the last two years.

It is still negotiating with Philips, believed to be the biggest NMR manufacturer, which has not yet recognised the British patents.

Mr Ian Harvey, BTG's chief executive, said his company's pursuit of its intellectual property rights had led one US company to call it a "vicious patent litigator."

The only patents it is pursuing through the courts concern the Hovercraft, where it believes patents held by the BTG subsidiary, Hovercraft Development, are being infringed by the Pentagon, the US defence headquarters.

Mr Colin Barker, BTG's chairman, said his group had already spent about £500,000 in the Pentagon case, and had begun legal proceedings.

BTG is understood to be seeking royalties amounting to several million pounds.

Its pursuit of the US health-care company Johnson and Johnson for NMR patent infringement has led the company to pass over a substantial portfolio of medical technology patents for BTG to develop and market.

Growth sharply slower during first quarter

By Peter Norman, Economics Correspondent

BRITISH ecooomic growth slowed sharply in the first quarter of this year although government statisticians have revised the earlier picture of a slight decline in activity since the final quarter of 1988.

The Central Statistical Office reported that the average measure of gross domestic product increased by a real, seasonally adjusted 0.3 per ceot in the first qoarter compared with the final quarter of last year. The average GDP measure, which is based on expenditure, income and outpot measures of GDP, showed 1.4 per ceot growth in the first 1989 quarter compared with the same period of 1988.

Governmeot statisticiaos said that the low first quarter year-oo-year growtb pertly reflected erratically strong growth in the first three months of 1988 when the average measure of GDP jumped by 5.4 per cent compared with the previous year's level. They said that a more informative comparisoo of uoderlying economic growth trends might be the latest six months compared witb the same period a year ago which sbowed a 2.5 per cent year on year rise. This compared witb 3.7 per ceot average GDP growth in 1988 compared with 1987.

However, uncertainties still surround official measurements of growth in the British ecooomy because the three compooeots making up the average measure show widely differing returns, particularly in the short term, although in economic theory all three sets of data should be the same.

The output measure of GDP, which the CSO considers the most reliable indicator of short term change, registered minimal growth of 0.1 per cent between the final quarter of last year and the first quarter of 1989 and yet a year-on-year growth of 2.4 per cent.

These figures were revised from the provisional output measure published by the CSO a month ago which showed a 0.2 per cent fall in GDP between the final three months of 1988 and the first 1989 quarter and 1.9 per cent first quarter year-on-year growth.

The expenditure based estimate of GDP, which the government admits may be under-recording spending trends in the economy, fell 0.4 per cent in the latest quarter while showing a 1 per cent gain compared with the first quarter of last year.

The income based GDP estimate increased by 1.3 per cent in the latest quarter compared with the final quarter of 1988 but showed growth of only 1 per cent compared with the first quarter of 1988.

Governmeot statistics showed that a fall in energy output following prodnction problems in the North Sea depressed economic activity. Excluding oil and gas production, the ontput measure of GDP was up 4 per cent in the latest quarter compared with the first quarter of 1988.

The expeoditure data pointed to a slowdown in consumer spending to year-on-year growth of 4.5 per cent in the first quarter compared with 6.5 per cent over the whole of 1988.

The gross domestic product deflator, known as the index of total home costs.

Lending, M0 rises exceed forecasts

By Our Economics Correspondent

BRITISH BANK and building society lending grew more strongly than expected last month while M0, the narrow measure of money supply that is targeted by the Treasury, expanded faster than its 1 to 5 per cent annual target range.

The Bank of England reported a £6.7bn seasonally adjusted increase in bank and building society lending in May compared with growth of £7bn in April and an average monthly increase of £6.9bn over the past six month.

The figure was higher than analysts' consensus forecast of £5.8bn to £6bn.

However, information released yesterday by the Committee of London and Scottish Bankers suggested that borrowing from banks by the personal sector was subdued, with corporate borrowing accounting for the bulk of the bank lending in May.

According to Mr Nigel Richardson, an economist with Warburg Securities, the figures were consistent with the building societies regaining market share in a depressed home loans market and industry continuing to borrow to finance capital investment and the importing of raw materials.

The Bank said that M0, which consists almost entirely of note and coins in circulation, increased by an unadjusted 1.6 per cent in May and by 6.5 per cent in the year to May.

Seasonally adjusted, M0 rose by 1.2 per cent in the latest mooth, which was slightly higher than analyst's 1.1 per cent consensus forecast, and by 6.2 per cent in the 12 months to May.

Banks to set up Mastercard umbrella group

By David Barchard

BRITISH BANKS belonging to the Mastercard payments system are to set up a UK consultative body similar to that used by the rival Visa group. The move is likely to cause tension with banks trying to promote Eurocard, the European affiliate of Mastercard.

Mastercard Forum, an umbrella group, will be based in London. It is expected that Mr Derek Wanless, a director of National Westminster Bank, will become chairman.

However, the new group is likely to sharpen tension between British credit card issuers and north European banks trying to promote Eurocard as the main European credit card.

British bankers are exasperated by West German attempts to present Eurocard as an international credit card, downplaying Mastercard and Access, despite the embryonic state of West Germany's credit card industry.

There are less than 1m Eurocards in West Germany, compared to almost 14m Access cards in the UK.

The larger West German banks have been trying to foster the growth of a European credit card industry to block the growth of the Visa organisation in their country. Many regard it as an American intruder.

The move to set up the umbrella group comes less than a year after the UK credit card market was thrown into disarray by the issue of the first Mastercard products outside the framework of Access, the Southend-based credit card consortium.

The number of Mastercard issuers outside Access has grown steadily, but banks have been hindered by the absence of a joint membership body.

Eurocard International, as the licensing authority in Europe, had wanted the new body to be under its jurisdiction, rather than part of Mastercard.

One of the big four banks said yesterday: "We have made it clear thet we intend to go our own way rather than have terms dictated to us from Brussels."

"If necessary, this could be the prelude to further divergences of British Mastercard issuers from the Eurocard fold, which most British card issuers regard as unbealthily cartelistic."

Fees for external fund managers rise

Barry Riley

FEES PAID to external managers of pension fund portfolios in the UK are creeping up, according to a survey of 250 schemes by Greenwich Associates, the US-based consultants.

The average fee level paid by these large (£50m plus) schemes rose to 0.191 per cent from 0.186 per cent of funds managed during the past year.

But the consultants say that the rise does not so much reflect a general increase as a switch by pension schemes to speciality managers with higher charges than the conventional balanced managers, who provide a general service covering all types of assets.

According to the survey, conducted during March, April and May, specialised managers charge an average of 0.261 per cent, while balanced managers receive 0.174 per cent.

However, the overall upward trend is being restrained by increased use of passive (or index tracking) managers who charge lower fees, averaging 0.143 per cent.

As many as 25 per cent of the schemes hired one or more new managers during the past 12 months, illustrating the scale of the switch towards specialised managers. Of schemes with assets over £400m, a third hired new managers.

Local authorities are in the vanguard of the move towards specialisation. The proportion of local anthority schemes using only balanced managers fell from 74 per cent in 1988 to 57 per cent this year. The proportion using both balanced and specialist managers has increased from 13 to 28 per cent.

Almost a fifth of the UK equities owned by these big funds are held in index matching portfolios, and this proportion is expected to grow to 25 per cent by 1992.

Elsewhere, the proportion of overseas equities (now 16 per cent of assets on average) is expected to increase somewhat.

However, sterling fixed interest securities (9.5 per cent) and UK property (9.8 per cent) are expected to decline in importance.

Compromise close on SE registration

By Richard Waters

A COMPROMISE is close to being reached at the Stock Exchange which could smooth the way to the introduction of arrangements for computerising settlement and registering share transactions.

A compromise, if accepted, would break a deadlock that has threatened the introdnction of the system, which has already been on the drawing board for seven years.

The compromise, to be voted on at a meeting on June 30, involves staggering the introduction of the new arrangements, rather than introducing them all at once.

It is hoped that this would appease smaller broking firms by allowing them to continue using their existing systems until they have had time to adapt.

It would also allow company registrars to continue for some time as at present, rather than seeing their role disappear overnight.

However, tbe Stock Exchange committee examining the issue has not shifted ground on the direction it intends to take. It is to reaffirm its commitment to a new system based oo Sepon, the Exchange's existing system for transfering and registering shares which is restricted to market makers.

Under this system, shares would all be registered in the names of a number of banks and broking firms and other institutions, which would act as nominees. They would hold shares in sub-registers on behalf of smaller investors.

The compromise would allow broking firms to switch to the new nominee system straight away or to continue with their present arrangements for a defined period of time.

This is also designed to settle a further concern. Under the new arrangements, listed companies and others would have to apply to the nominee companies to gain access to the sub-registers giving details of who owns shares.

This has caused coocern about the responsiveness of the nominees and the sensitivity on the part of companies about making these sorts of requests when they may be expecting a hostile takeover. By staggering the introduction of the nominee system, the Exchange would hope to buy time to resolve the problem.

A member of the committee said: "Allowing market makers to migrate on to the new system means that not everyone would be on bulk nominee on day one, and the listed companies' service would not be needed on day one."

Rolls-Royce wins £400m engine order from TWA

By Michael Donne, Aerospace Correspondent

ROLLS-ROYCE, which recently announced record business so far this year of £1.5bn, has won another major order, from Trans World Airlines of the US, estimated to be worth up to £400m.

TWA is buying the new RB-211-524L "big thrust" engine, now renamed the Trent, for its fleet of 20 European A-330 twin-engined, medium-range Airbuses, with an option on another 20 aircraft.

The Trent, when it enters service in 1993-94, will be the most powerful jet engine available, capable of thrusts of up to 72,000 lbs for TWA, but also able to go further to about 80,000 lbs.

Rolls-Royce said yesterday that TWA had chosen the Trent engine because it would provide the necessary power for long-range, non-stop A-330 operations over the North Atlantic.

The A-330 with the Trent will be able to carry more than 300 passengers non-stop from New York to Rome, or from St Louis to Frankfurt, or Los Angeles to London.

Sir Ralph Robins, deputy chairman and managing director of Rolls-Royce, said that the TWA deal "firmly establishes the Trent as the best selling engine for the A-330 Airbus, with the largest market share of firm orders and options – over 60 per cent."

Other orders for the Trent so far include Air Europe, with six MD-11s and another 12 on option, and Cathay Pacific of Hong Kong, for 10 A-330 Airbuses with another 10 on option.

In Brief

Securities firms to be tried on disclosure

James Capel and Smith New Court, the securities firms, have been committed for trial to the Central Criminal Court, London, on charges relating to technical breaches of the Companies Act, writes Richard Waters.

The committal followed a five-minute hearing at Guildhall magistrates' court, where the two firms first appeared last week. The full trial is expected within six to eight weeks.

Both charges relate to a failure in 1986 to disclose information about interests in shares in Consolidated Gold Fields, the diversified UK mining group, after receipt of a notice under section 212 of the Companies Act requesting the information.

BP steel contract

BP has awarded a £45m contract to Thyssen Mannesmann of west Germany to supply steel for a £162m pipeline from the North Sea. British Steel had said it was unable to meet BP's specifications for large diameter carbon steel of the required thickness.

Samsung site search

Samsung, the South Korean electronics group, is considering a large-scale investment in semiconductor manufacturing in the UK or Ireland.

£300m army gun deal

VSEL, the Trident submarine builder, has been awarded a £300m contract by the Ministry of Defence to supply 155mm heavy guns to the British Army. They will be capable of firing nuclear shells and will be deployed in West Germany with the British Army of the Rhine.

Town bans dumping

Dumping at one of Europe's biggest toxic waste disposal sites, Walsall, West Midlands, has been banned by councillors because of fears about possible environmental damage. The site already contains about 1.3m tonnes of treated wastes, including chemicals such as arsenic and cyanide.

JOBS

The built-in bias against older candidates

By Michael Dixon

OUT of the blue, four headhunters from different bits of Britain have just contacted the Jobs column in swift succession, all reporting an identical event. To make the coincidence more arresting, management consultant John Weetman has written describing an experience closely connected with the same thing.

The event separataly reported by the headhunters is that the forecast shortages of most sorts of engineers have begun to bite. What links that development with the management consultant's experience is that one of the long mooted remedies to the long forecast shortages is for employers to stop behaving as though engineers' working lives end at about the age of 40, and start recruiting those of riper years.

While on a technical consulting assignment in a big construction group recently, Mr Weetman kept close watch on a recruiting exercise being carried out by its personnel department. The group's need was for half a dozen engineers with the commercial acumen and managerial ability to take charge of sizeable contract operations.

He says he expected the multiple advertisements to attract some 200 applicants. The jobs were interesting, and although the salary range was only £17,000-£18,000, that was pretty competitive for the level of engineering work in question (before the shortages started to bite, at least).

But whereas he and the recruiting staff knew the prospective salary bracket, potential candidates did not. The ads carefully avoided giving any meaningful information on pay.

That may be one reason why the number of people who put in applications — which had to be made on the group's standard form — was under 50, about half of them aged 40-plus. Theraupon junior personnel staff sifted the forms into two piles according to pre-set criteria, possibles on the right and rejects on the left.

While the management consultant had no brief to interfere in the exercise, after looking through the rejects he managed to rescue the applications of two 50-year-olds. They had heen ditched on grounds that they had not done well enough in the public examinations they had taken at the age of 16, which damning evidence of poor scholarship chimed oddly with the fact that both had gone on to win honours degrees at university.

It transpired that the sifters had been told to reject anyone who had not gained C grades or better in a minimum of five subjects in the 16-plus exams. Although the two honours graduates' forms claimed sufficient passes, they did not specify the grades thereof — which was taken to mean that their grades had been below C.

Being 51 himself Mr Weetman was able to point out that in the days when the ditched pair took the exams, the grades candidates gained were not disclosed. They simply passed or failed.

Nevertheless by the end of the next stage, tha first interviews, all applicants beyond their 40th birthday had gone from the lists. The interviewing had been done by two women and a man aged about 30, who agreed later that all the candidates they had rejected shared a common fault: to wit, they were poor communicators.

"To my mind, that sort of judgment begs questions," John Weetman says. "The interviewers were well trained and probed into personal as well as work matters, which in these days of drugs and so on is no doubt necessary.

"Now think of a man of 45 who has been an engineer all his working life, and spent most of it on building sites. Suddenly he's in an office faced by a 30-year-old woman he's never met before asking him personal questions.

"While he might well find it hard to communicate with her, he could still be superb at communicating with construction workers, which is mainly what's required in the job. When I suggested that communication was a two-way process, though, the interviewers just stared at me uncomprehendingly."

Even so, Mr Weetman thinks that bias against older candidates had been built into the recruiting exercise right from the start. For instance, the advertisements stated that candidates should be "30-plus".

"The object was to deter people under 30 who would probably not have enough experience," says the managemant consultant. "Nobody seemed to twig that anyone over 40 might also see it as discouraging.

"And the ads called for attributes which, howaver desirahle they might be, weren't really needed. That probably attracts youngsters with big ambitions who see challenge in a job beyond their proven capabilities. But older people who could do the work are likely to be put off by a demand for qualities they've no hard evidence of possessing."

All of which surely offers a lesson to company chiefs in countries, such as West Germany and Italy besides Britain, where shortages of workskills are impending. Difficulties in finding enough recruits may well be rooted, not in absolute scarcity of engineers or whatever, but in the attitudes of the company staff doing the recruiting.

If so, however, it does not follow that the culprits will be personnel specialists who, in the Jobs column's experience at any rate, are mostly aware of the need to revise recruiting practices.

The blame for any any self-imposed skill shortages is at least equally likely to lie with line management. For if a company's line managers insist on sticking to their habitual ways of hiring, the personnel department often lacks the political power to do anything about it.

Property

CAROL SPEED, head of the Kynaston International recruitment consultancy, seeks three senior people for the London-based property division of a big British group. Since she may not name it, sha promises to honour applicants' requests not to be named to the employer at this stage.

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Write in the first instance to Nigel Bastow, Ref NJB/FT/029, MSL Advertising, Recruitment Resources, 32 Aybrook Street, London WIM 3JL or telephone him on 01-487 5000.

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Interested, well qualified candidates, preferably educated to degree and/or MBA level, should apply in the first instance to Anthony Isern of The Roger Parker Organisation Limited, the retained consultants for this assignment.

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You should have at least five years' treasury experience either in financial services or in a corporate treasury, with an emphasis on sterling money markets and interest rate risk management. You should also have an up to date knowledge of capital market instruments.

Résumés please, including a day time telephone number, to Robin Alcock quoting Ref: RA573, Coopers & Lybrand Executive Resourcing Limited, Shelley House, 3 Noble Street, London, EC2V 7DQ.

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Interested applicants should write, enclosing their CV, to Ben Glass, General Manager, Hambro Guardian Assurance plc, 41 Tower Hill, London EC3N 4HA

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Personal Assistant (Commercial)

Property Company – Continental Europe Division

London

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Male or female candidates should submit in confidence a comprehensive c.v. or telephone for a Personal History Form to, *D.E.J. Oatway, Hoggett Bowers plc, 1/2 Hanover Street, LONDON, W1R 9WB, 01-734 6852, Fax: 01-734 3738, quoting Ref: H34001/FT.*

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**The Personnel Officer,
NatWest
International Trust
Corporation (Services) Limited,
11/13 Hill Street,
Douglas,
Isle of Man.**

All applications will be treated in the strictest confidence.

كذا صد الأصل

PUBLIC NOTICES

MMC INVITES EVIDENCE ON BRODRENE HARTMANN'S PROPOSED ACQUISITION OF 50 PERCENT OF LURGAN FIBRE

The Monopolies and Mergers Commission would like to hear from any person or organisation with information or views on Brodrene Hartmann's proposed acquisition of 50 percent of Lurgan Fibre Limited from Royal Packaging Industries Van Leer.

The Commission will be studying the effects on competition in the supply of moulded pulp egg packaging.

The Commission would like evidence in writing by Wednesday 28th June 1989 sent to:- The Reference Secretary (Lurgan Inquiry), Monopolies and Mergers Commission, New Court, 48 Carey Street, London WC2A 2JT

COMPANY NOTICES

RIGGS NATIONAL CORPORATION
USD 60,000,000
FLOATING RATE SUBORDINATED NOTES DUE 1996

In accordance with the provisions of the notes notice is hereby given that for the period 20 June 1989 to 20 September 1989 the notes will carry a rate of interest of 9⁴/⁸ per cent per annum with a coupon amount of USD 245.97

CHEMICAL BANK
AS AGENT

LEGAL NOTICES

ANTON DOMESTIC APPLIANCES LIMITED
(IN RECEIVERSHIP)

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above company will be held at Cork Gully, 9 Greyfriars Road, Reading RG1 1JG at 10.00 am on Wednesday, 5 July 1989 for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under Section 48 of the said Act and, if thought fit, appointing a committee.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:

(a) they have delivered to me at the address shown below, no later than 1200 hours on Tuesday, 4 July 1989, written details of the debts they claim to be due to them from the company, and their claims have been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with me any proxy which the creditor intends to be used on his behalf.

Dated: 14.6.89

N J Vooght
Joint Administrative Receiver
Cork Gully
9 Greyfriars Road
Reading RG1 1JG

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LEGAL NOTICES

INSOLVENCY ACT 1986
ELLIS CONSTRUCTION (SOUTHERN) LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 98 of the Insolvency Act 1986, that a Meeting of the Creditors of the above-named Company will be held at London Chamber of Commerce, 69 Cannon Street, London EC4N 5AD on the 28th day of June 1989 at 12 noon for the purposes mentioned in Sections 100 and 101 of the said Act, that is,

1. The nomination of a Liquidator
2. The appointment of a Liquidation Committee

Proxy forms to be used for the purposes of the above Meeting must be lodged, accompanied by statements of claim, at the Registered Office of the Company, situated at Booth, White & Co., 1 Wardrobe Place, Carter Lane, St. Pauls, London, EC4V 5AJ not later than 4 p.m. on the 28th day of June 1989.

Notice is also hereby given, pursuant to Section 98(2)(a) Insolvency Act 1986, that Colin George Wiseman of Booth, White & Co., 1 Wardrobe Place, Carter Lane, St. Pauls, London EC4V 5AJ is qualified to act as an insolvency practitioner in relation to the above Company and will furnish Creditors free of charge with such information concerning the above Company's affairs as they may reasonably require.

Dated this 12th day of June 1989
By order of the Board
A. Ellis
Director.

ANTON DISTRIBUTORS LIMITED
(IN RECEIVERSHIP)

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above company will be held at Cork Gully, 9 Greyfriars Road, Reading RG1 1JG at 10.00 am on Wednesday, 5 July 1989 for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under Section 48 of the said Act and, if thought fit, appointing a committee.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:

(a) they have delivered to me at the address shown below, no later than 1200 hours on Tuesday, 4 July 1989, written details of the debts they claim to be due to them from the company, and their claims have been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with me any proxy which the creditor intends to be used on his behalf.

Date: 14.6.89

N J Vooght
Joint Administrative Receiver
Cork Gully
9 Greyfriars Road
Reading RG1 1JG

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re

COLECO INDUSTRIES, INC.,
LAKESIDE INDUSTRIES, INC., and
BELCHOW & RIGHTER COMPANY,

Debtors

In Proceedings For
A Reorganization
Under Chapter 11

Case Nos. 88-B-11505
through 8-8-11507
Inclusive (PBA)

NOTICE OF HEARING ON DEBTORS' APPLICATION FOR APPROVAL OF (I) SALE OF SUBSTANTIALLY ALL OF THE DEBTORS' ASSETS TO HIAC II CORP., A SUBSIDIARY OF HASBRO, INC., AND (II) THE ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS IN CONNECTION WITH SAID SALE

TO ALL PARTIES IN INTEREST:

PLEASE TAKE NOTICE that a hearing will be held on July 6, 1989 at 2:30 p.m. (the "Hearing Date") before the Honourable Prudence B. Abram, United States Bankruptcy Judge, in Room 611-1, United States Bankruptcy Court, United States Custom House, One Bowling Green, 6th Floor, New York, New York on the Debtors' application dated June 15, 1989 (the "Application") seeking authority for the Debtors to (i) sell substantial all of the Debtors assets to HIAC II Corp. ("HIAC") a subsidiary of Hasbro, Inc., free and clear of all liens, claims and encumbrances, pursuant to the terms of an asset purchase agreement, a true copy of which is annexed to the Application as Exhibit "B" (the "Purchase Agreement"), and (ii) assume and assign certain executory contracts as listed in Schedule 2.01(a)(vi) of the Purchase Agreement. The Application is on file in the office of the Clerk of the Bankruptcy Court, Room 614, United States Custom House, One Bowling Green, 6th Floor, New York, New York 10004, where it may be inspected by interested parties during normal business hours, or a copy may be obtained by contacting Stroock & Stroock & Lavan, Attorneys for the Debtors, at 7 Hanover Square, New York, New York 10004, (212) 806-5891, Attn: Donna L. Mandel.

DESCRIPTION OF PROPERTY TO BE SOLD

The Purchase Agreement contemplates the sale to HIAC of substantially all of the Debtors' assets (the "Assets"). Included among the Assets (as more fully described in the Purchase Agreement) are:

(i) Real property located in Fairfax, Vermont, which consists of a steel frame and concrete building used as a wood working factory of approximately 44,662 square feet located on 14 acres of land, together with all improvements, appurtenances, fixtures and permits relating to such properties;
(ii) Substantially all good and merchantable finished goods, inventory, work-in-progress and raw materials, subject to count other than inventory pertaining to certain excluded products;
(iii) Substantially all equipment of every type including injection and blow molding machines, silos, material handling equipment, assembly equipment, painting equipment, office furniture, operating supplies, molds, tools, tooling and dies and all other equipment used or useful in the operation of the Debtors' business;
(iv) Substantially, all service marks, trademarks, trade names, trade styles, patents, copyrights, logos, trade secrets and other intellectual property rights including all rights to the names "Coleco Industries, Inc.", "Selchow & Righter Company" and "Lakeside Industries, Inc." except those relating to certain excluded products;
(v) The Debtors' rights under the Assigned Contracts as more fully explained below;
(vi) Certain purchase and customer orders;
(vii) Accounts receivable other than those specifically excluded (the "Accounts");
(viii) Accounting records and management information systems data relating to the Debtors' business;
(ix) Substantially all prepaid expenses and deposits
(x) All general intangibles other than those relating to excluded products;
(xi) Under certain conditions, cash held by Coleco U.K. Inc.
(xii) Rights under a certain lawsuit between the Debtors, Chieftain Products, Inc. and A.T. Vernon Investments, Inc.

SUMMARY OF TERMS OF PROPOSED SALE

A. Purchase Price

In consideration for the purchase of the Assets, HIAC will pay the Debtors:

(i) Cash in the amount of eighty-five million ($85,000,000) dollars (plus cash rebated to Coleco U.K. expected to aggregate approximately $8,000,000);
(ii) Cash for the payment of the Debtors' inventory, outstanding pre-petition account receivables and outstanding post-petition accounts receivable to be determined pursuant to a formula set forth in Section 2.02(a)(ii) of the Purchase Agreement
(iii) Four million (4,000,000) warrants each representing a right to purchase one-quarter share of the common stock of Hasbro, Inc., exercisable in accordance with the terms of the Warrant Agreement annexed as Exhibit "A" to the Purchase Agreement;
(iv) Certain royalty payments arising from the Irwin Toy, Ltd. Agreement.

A mechanism for adjustments to the purchase price is set forth in Section 2.02(a)(vii) and Article XI of the Purchase Agreement.

B. Sale To Be Free and Clear of Liens, Claims and Encumbrances

The Assets are to be sold pursuant to 11 U.S.C. §363, free and clear of all liens, claims and encumbrances. Said liens, claims and encumbrances will attach to the proceeds of the sale, with the same force, validity and effect which they had against the Assets and will be paid in such amounts as are agreed upon between the Debtors and the lienors, or as determined by further order of the Bankruptcy Court.
In order to adequately assess and provide for any liens, the Debtors have obtained an order of the Court directing that all parties or entities who assert liens against the Assets serve notice in the manner set forth below, of the dollar amount of their claim against the Debtors, the basis for said claim, the assets on which they hold a lien and the basis for said lien ("Notice of Lien").
The Debtors are also requesting that those entities holding molds or other equipment to be sold under the Purchase Agreement be directed to turnover such property to HIAC upon closing with their liens, if any, to attach to the proceeds of the sale with the same force, validity and effect which they had against the Assets, to such amounts as may be fixed and determined by further order of the Bankruptyc Court.

C. Assumption and Non-Assumption of Claims, Liabilities and Obligations

Pursuant to Section 2.04 of the Purchase Agreement, HIAC will not assume claims, liabilities and obligations of the Debtors, including, without limitation, claims, liabilities or obligations arising prior to the Closing Date, product liability claims asserted under whatever theory of law in relation to product manufactured, distributed or sold by the Detors prior to the Closing Date or as otherwise set forth in Section 2.04 of the Purchase Agreement, except that HIAC will assume the liabilities described in Section 2.03 of the Purchase Agreement.

D. Closing Conditions

The Purchase Agreement contemplates a closing of the transaction on or before July 17, 1987. If the Closing has not occurred by July 17, 1989, either party can terminate the Purchase Agreement. The Purchase Agreement imposes other conditions which are fully set forth in Section 9.01.
Reference should be made to the Purchase Agreement and the Application for a more complete description of the terms of the Purchase Agreement, including certain assumptions of liabilities by Purchasers, indemnification provisions, insurance requirements and conditions to closing.

ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS

Included among the Assets are certain executory contracts which the Debtors have agreed to transfer pursuant to the Purchase Agreement which are defined in the Application as the Assigned Contracts. A list of Assigned Contracts currently designated by HIAC is included in Schedule 2.01(a)(vi) of the Purchase Agreement. In order to transfer title to the Assigned Contracts, the Debtors seek to assume the Assigned Contracts and sell and assign their rights thereunder to HIAC pursuant to §363 and 365 of the Bankruptcy Code. In addition, HIAC has the right to designate additional contracts as Assigned Contracts anytime prior to the closing on the Purchase Agreement. If any additional contracts are so designated, the Debtors will also seek authority to assume and assign said contracts upon an appropriate supplemental application.
In order to facilitate the foregoing process, the Debtors have obtained a court order directing each third party to the Assigned Contracts to give notice in the manner set forth below, of the existence of any default (either monetary or otherwise), and the dollar amount believed to be necessary to cure said default ("Notice of Default"). Any party to an Assigned Contract who fails to file a Notice of Default in the manner set forth below will be forever barred from subsequently asserting any claim or default under the Assigned Contracts.

DISPOSITION OF PROCEEDS

The Debtors and the Committee estimate that approximately $35 million of the gross sale proceeds will be required to satisfy claims of lienholders and to cure existing defaults under the Assigned Contracts (including a $31 million payment to satisfy the claim of the Debtors' major secured creditor). The remaining proceeds resulting from the Hasbro sale shall be turned over to counsel for the Committee and invested in an appropriate interest bearing escrow account. These funds, along with the Debtors' remaining assets, shall be used to fund an amended plan of reorganization to be developed and filed by the Debtors and the Committee as soon as practicable.

NOTICE IS FURTHER GIVEN that objections to the proposed sale, Notices of Default and/or Notices of Liens, if any, must be in writing and filed with the Clerk of the Bankruptcy Court, with a copy to the chambers of the Honourable Prudence B. Abram, of the United States Custom House, Sixth Floor, One Bowling Green, New York, New York 10004, and a copy thereof served on (i) the United States Trustee, at the United States Custom House, Fifth Floor, One Bowling Green, New York, New York 10004, (ii) Stroock & Stroock & Lavan, attorneys for the Debtors, of 7 Hanover Square, New York, New York 10004, Attn: Daniel H. Golden, Esq., (iii) Whitman & Ransom, attorneys for Hasbro, Inc., at 200 Park Avenue, New York, New York 10166, Attn: Richard N. Tilton, Esq., (iv) Phillip H. Waldoks, Esq., Hasbro, Inc., 32 West 23rd Street, New York, New York 10010, and (v) Jones, Day, Reavis & Pogue, attorneys for the Official Committee of Unsecured Creditors, 599 Lexington Avenue, New York, New York 10022, Attn: Cindy E. Tiersman, Esq. not later than 2:00 p.m. on July 5, 1989;

NOTICE IS FURTHER GIVEN that the aforesaid hearing may be adjourned from time to time without further notice.

Dated: New York, New York
June 15, 1989

BY ORDER OF THE COURT

/s/ Prudence B. Abram
United States Bankruptcy Judge

Chartered Engineers

The Engineering Council announces that the following have qualified as Chartered Engineers, entitling them to use the designatory letters CEng after their names:

Chartered Institution of Building Services Engineers: DA Adesanya, M Al-Khafaji, S Ali, RT Bell, KJ Bottoms, MAI Bukhari, SM Casey, JP Chapman, CS Cheng, ECK Chui, SW Chung, R Edwards, MA Entwistle, PR Forrest, PCY Hsu, PA Hudson, PJ Innocent, A Koroyiannis, JR Kwasniewski, WM Leung, W Leung, JW Lim, HM Lim, RJ Mangham, CDF ...

[illegible]

Incorporated Engineers

The following are entitled to use IEng after their names:

[illegible]

Institute of Measurement & Control: SR Bailey, R Burrows, CGL Cole, R Cooper, S Cutts, M Henson, RA Hewett, BO Kalajaye, NA Morgan, JN O'Sullivan, CD Ollivier, DH Perry.

Institute of Plumbing: DP Vincent.

Institute of Quality Assurance: P Cox, N Noble, AW Phillips, DW Turner.

Institute of Road Transport Engineers: R Bates, AS Beaty, J Bell, JA Davey, RW Dickson, TG MacFarlane, P Pye, PL Taylor.

Institution of Agricultural Engineers: SJW Shaw, SM Whatley.

Institution of Electrical & Electronics Incorporated Engineers: K Adegboyega, JC Aitken, D Anderson, CW Appelbee, RG Atkinson, NJ Axton, JW Bailey, AJ Baily, SP ...

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Welding Institute: CE Knights.

Engineering Council Direct Registrant: RJ Hatton.

TECHNOLOGY

What the average child should be taught

Sweeping the dust of neglect away from practical skills

Ambitious proposals for the teaching of design and technology in UK state schools have just been published. David Thomas reports

A turning point may have been reached in the long and unhappy history of attempts to instil a broad base of technological skills into the mass of the British population.

Proposals requiring for the first time that all pupils, from 5 to 16, in state schools in England and Wales be taught design and technology were published yesterday by a committee of the National Curriculum Council.

The proposals form part of the new national curriculum which is being phased into schools following last year's Education Reform Act. The act insisted that design and technology form a compulsory subject in primary and secondary schools in a hid to reverse what is seen as a century of neglect of practical skills by British education.

The stakes could not be higher. As the committee points out in the report's opening paragraph, pupils' ability to learn how to design and make better products will be "an esseotial condition for the future prosperity of our business and industry."

This deliberately business-oriented language would have been unthinkable in an educatioo report a mere half-dozen years ago. Yet it is hy no means the only new ground hroken by the committee, which was chaired by Lady Margaret Parkes.

At the heart of its departure from British edocational tradition is the contention that *all* children must be assessed not just oo what they know, but also oo what they can do. "Although knowledge, skills and values are essential resources, it is their application and use in relation to a particular design and technology task which is crucial," the report* argues.

"Assessment, therefore, needs to be directed not to knowledge, skills and values in isolation, hnt to their deploymeot in action and interaction in the course of design and technological activity."

Two groops of objectives, called "attainment targets", are outlined for every child.

The first deals with design and technology in general. It is broken down into four constitnents: identifying needs and opportunities for design and technological activities in a range of contexts, snch as home, school, recreation, community, business and industry; generating a design proposal to meet these needs; working to a plan to implement that design and construct the outcome; appraising the result.

Flesh is put on the bones through 10 attainment levels to measure progress and through descriptioos of tha programmes of study. These specifications are the real meat of the committae's work and occupy more than half the 100-page report. A few examples ont of many hundreds are given in the diagram.

The programmes of study are striking for setting out to place design and technology in the widest possible context. Thus, while each study programme contains suggestions for what children of a given age should be taught about materials, tools, mechanisms, modelling and so on, it also inclndes elements on the business and social backgrounds.

Similarly, the committee says that design and technology must draw on activities normally associated with a range of other subjects, such as art, business studies, computer studies and home economics. With the exception of art, schools will be free to merge the teaching of these othar subjects into design and technology.

Information technology is the focus of the second part of the committee's work, with part of the curriculum being dedicated to ensuring that all children can generate ideas, handle information and model real or imaginary situations.

What this will mean in practice is again spelt out in detailed lists of attainment targets and study programmes. For instance, the average seven-year-old should be taught that "software can be used to store, modify and retrieve information in the form of text, numbers, images and sound." The average 11-year-old will need to learn "how to expand and amend information in a compnter database, how to access it and how to consider the correctness of the procedures which they have adopted by looking at the outcomes."

The stress on the practical nature of design and technology has forced the committee to think through how the compulsory testing of pupils – at seven, 11, 14 and 16 – should be carried out.

It argues that pupils should be assessed mainly through "whole tasks which pnpils carry out in their design and technology lessons." Thase tasks would relate to one of the the contexts identified in the report: homa, school, recreation, community, business and industry. Designing a theatre set or a stage lighting system is one example. Redesigning a community hall is another.

At 16+, the committee proposes a GCSE (General Certificate of Secondary Education) in design and technology. This would inclnde an extended project chosen by each pupil. Similarly, the information technology studies would culminate in a GCSE in information systems.

Lady Parkes's committee is proud that its recommendatious would mean boys and girls receiving similar technological tuition for the first time. "It will not be possible for pnpils to satisfy the requirements of nur attainment targets and programmes of study by working in a narrow vein of activities, eg boys working on mechanical and constructional tasks while girls concentrate on catering and textile-related activities."

But this raises the spectre of resources, particularly in single sex schools.

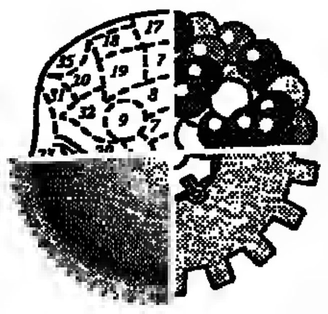
The committee's interim report, published in November, called for a big teacher retraining programme, as well as for more spending on specialist accommodation and equipment, particularly microcomputers. Kenneth Baker, Education Secretary, went no further yesterday than noting the committee's comments.

The main doubts about the report are likely to centre not on its objectives, which are admirably bold, hut on their practicality. Many schools are a long way from being ready to teach five, seven and 11-year-olds the design and technology study programmes in September 1990, as proposed.

Moreover, the report recommends that 11 to 14-year-olds should take design and technology for two to four periods in a 40-period week, with 14 to 16-year-olds devoting just two periods to the subject. Will this be enough to deliver its ambitious agenda?

The National Curriculum Council is looking for comments on the report by September 22. It will supply free copies in small quantities.

* *Design and Technology for Ages 5 to 16. National Curriculum Council, 15/17 New Street, York YO1 2RA.*



WORTH WATCHING

Edited by Geoffrey Charlish

Electronic pain relief

THE UK research group Cambridge Consultants (CCL) has developed a compact electronic pain relief device which can be used for all kinds of condition. One version is for women in labour.

The system, called Xenos, will be available from Nene Management Systems of Dereham, Norfolk. It uses transcutaneous electrical nerve stimulation (Tens), which is well established in the treatment of arthritis, sciatica, cancer pain, spinal injuries and neuralgia. It works by applying electrical impulses via electrodes placed around the pain area and can eliminate the need for expensive and potentially addictive drugs.

By miniaturising the electronics with a custom-integrated circuit, CCL has devised a much more compact unit measuring only 73 mm by 50 mm by 23 mm and weighing 60 gms without the battery. Xenos is more complex than existing systems, however, and allows a wide range of applications to be programmed. Single and double channel units are available at £65.90 and £95.90 respectively.

Both the feasibility study and the design of the obstetric version were funded by the UK Government.

Small hall, big acoustics

A SYSTEM which can adapt a hall's acoustics to suit different types of performance has been developed by Prinssen en Bus, a Dutch acoustic engineering consultancy.

The development is called SIAP (System for Improved Acoustic Performance) and a company of the same name in Uden will be marketing it.

All halls modify the sound experienced by the audience. A fairly small hall, which will allow a speaker to be heard clearly, will not produce the most pleasing result for a full symphony orchestra.

A full, dramatic sound for the orchestra normally needs a large hall so that the reverberation effects are increased. These effects are due to reflections of sound from the various surfaces. As the hall gets bigger, reflections take longer to reach the audience and reverberation increases.

SIAP can "imitate" a large hall through the digital processing of electrical signals coming from stategically placed microphones. It does this by feeding high-quality loudspeakers with delayed sound, so as to increase reverberation in theatres and smaller halls.

Each system is designed to suit the hall in which it will be installed. The cost for a medium-sized theatre is about £60,000.

Protecting sites from gas leaks

THE DANGERS created by gases such as methane leaking into buildings on former landfill sites can be reduced through a service offered by the UK Government's Harwell Laboratory.

The Emergency Response Scheme, available around the clock, will be provided by Harwell's Environmental Safety Centre.

The service will investigate problems in industrial, commercial and leisure buildings and will also cover developments close to landfills that are still in use. It will operate within 200 miles of Harwell using sensors and a telecoms link.

An annual charge covers an initial site visit, installation of the link, quarterly inspections and up to four emergency call-outs.

US research spending rises

THE 100 biggest corporate spenders on research and development in the US considerably increased their outlay last year.

According to Technical Insights (TI), the New Jersey technology market research company, the expenditure of these companies increased by 10.7 per cent in 1988 to a total of $48.8bn. In 1987, the gain was only 6.3 per cent.

An important factor was the efforts of computer and pharmaceuticals companies to get new products to market.

TI produces an annual survey of this topic for corporate executives in its Inside R&D newsletter. It includes a "league table" of the top 10 spenders, which account for 44 per cent of the spending of the top 100 group. General Motors is still in the lead, having spent $4.75bn. IBM is second, Ford third and AT&T fourth.

Generally, computer companies have been moving up the 100 table. Sun Microsystems, for example, doubled its R&D spending in 1988, Prime Computer was up by 59 per cent and Tandem by 55 per cent.

More than a token check

THE DAY of the miner's brass token, which is hung on a hook at the top of the shaft and picked up at the end of the shift, may soon pass.

The tokens indicate who is off sick and ensure that no miner is left down the pit, but they can do little else. Now Logica, the UK computer systems consultancy, is developing a system based on the use of machine-readable badges.

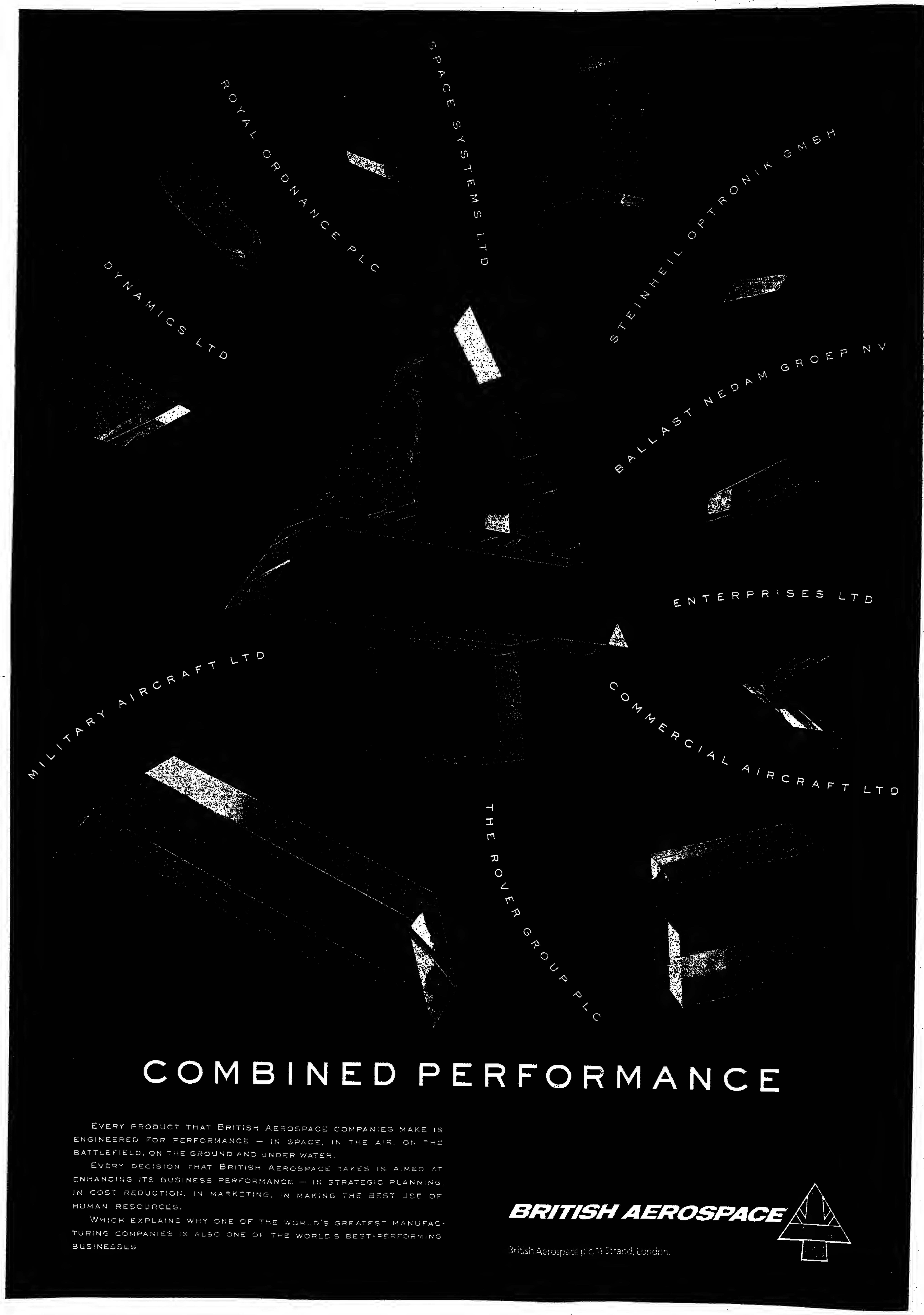
Cards (colliery attendance recording, deployment and safety system) allows computerised comparison of the day's manning plan with what actually happens. Miners can be reassigned to jobs that match their skills and training, via an electronic link with training records.

At the end of each shift, Cards will automatically inform the wages system of the details of miners whose attendance and job differed from the original plan.

Afterwards, the computer's flexible reporting facilities enables local managers to extract information, for example, on attendance, deployment and overtime.

CONTACTS: Cambridge Consultants: UK, 0223 420024. SIAP: The Netherlands, 4132 64944 or in London on 455 4640. Harwell: UK, 0235 24141. Technical Insights: US, (201) 568 4744. Logica: London, 637 9111.

TECHNOLOGY MARKET


ROYAL ORDNANCE PLC
SPACE SYSTEMS LTD
STEINHEIL OPTRONIK GMBH
DYNAMICS LTD
BALLAST NEDAM GROEP NV
ENTERPRISES LTD
MILITARY AIRCRAFT LTD
COMMERCIAL AIRCRAFT LTD
THE ROVER GROUP PLC
COMBINED PERFORMANCE
Every product that British Aerospace companies make is engineered for performance — in space, in the air, on the battlefield, on the ground and under water.
Every decision that British Aerospace takes is aimed at enhancing its business performance — in strategic planning, in cost reduction, in marketing, in making the best use of human resources.
Which explains why one of the world's greatest manufacturing companies is also one of the world's best-performing businesses.
BRITISH AEROSPACE
British Aerospace plc, 11 Strand, London.

FT LAW REPORTS

Unauthorised insurer is not liable for claims

RE CAVALIER INSURANCE CO LTD
Chancery Division: Mr Justice Knox: May 25 1989

STATUTORY prohibition on the unauthorised performance by an insurer of a particular class of insurance contract renders the contract void and illegal, and the innocent insured, though entitled to the return of his premiums, cannot recover under the policy.

Mr Justice Knox so held on a summons by Mr J.L.P. Pope, the liquidator of Cavalier Insurance Co Ltd, for directions as to the conduct of the liquidation. The three respondents were representatives of trade creditors and of the insured, and an insurance marketing company, Multi-Guarantee Insurance Co Ltd.

Section 2(1) of the Insurance Companies Act 1974 provides: "No person shall carry on in Great Britain insurance business of a class relevant for the purposes of this Part of this Act . . . other than . . . a body corporate which is authorised . . . to carry on business of that class . . . "

MR JUSTICE KNOX said that Cavalier provided extended warranty insurance covering repairs and replacement costs of heating plumbing and electrical systems, and of electrical appliances.

In February 1973 it agreed to give retrospective cover to January 1 1982 on existing policies marketed by Multi-Guarantee through retailers, and to write fresh domestic appliance extended warranty business promoted by Multi-Guarantee.

Cavalier received over £1m of premium income from Multi-Guarantee.

On June 27 1983 Multi-Guarantee was ordered to be wound up by the court. A petition to wind up Cavalier was presented on December 6, and Mr Pope was appointed liquidator.

The great bulk of the extended warranty insurance policies issued by Cavalier were issued before June 1983. Although some claims were made under the policies they were relatively few and even fewer were settled by Cavalier.

The liquidator applied to the court for directions, raising *inter alia* two questions: first, whether he might properly deal with claims in the liquidation on the footing that Cavalier was never authorised to write extended warranty policies; and second, whether if Cavalier never had such authority, he might properly admit proof from extended warranty policyholders in respect of premiums paid.

Cavalier was authorised under the Insurance Companies Act 1974, to carry on insurance business of a class called in that Act "property insurance business," defined as the business of effecting and carrying out contracts of insurance against risks of loss of or damage to material property.

The 1974 Act was amended by the Insurance Companies (Classes of General Business) Regulations, made pursuant to section 2 of the European Communities Act 1972, and having the force of statute. The Regulations introduced a different classification of insurance business, in 17 classes.

Class 8 was insurance against loss of or damage to property due to "fire, explosion, storm . . . " Class 9 was insurance against loss of or damage to property due to hail or frost or any event "other than those mentioned in class 8." Class 16 was miscellaneous financial loss including risks of insurance business not falling within "some other class."

After the 17-fold classification under the 1977 Regulations came into force on January 1 1978 Cavalier was authorised to carry on business under classes 7 (goods in transit), 8 and 9.

The first question was whether Cavalier was authorised to effect and carry out the extended warranty insurance business. That turned on whether the contracts were within class 9 or class 16. If they were within the former, Cavalier was authorised; if within the latter, it was not.

Primarily the question was whether insurance against the costs of labour repairs and *replacement parts in the event* of electrical or mechanical failure or breakdown of an insured appliance was, on its true construction, insurance against "loss of or damage to" the appliance due to an event other than those mentioned in class 8 (fire, explosion, storm . . .).

It was not. First, "loss of" was clearly inappropriate to malfunction. The important word was "damage." Taken by itself "damage" was accepted as having a primary usual meaning of physical impairment by an external cause.

Mr Pickering for the insured argued that a part of an appliance that had broken down could perfectly well be described as a damaged part.

That left out of account that it was not just loss or or damage to the property, but loss of or damage to property "due to events." The combination of the use of "loss of or damage to" and the inclusion of an event to the definition strongly pointed to the primary meaning as being the intended meaning.

As Cavalier was not authorised to write extended warranty insurance policies, the second question was whether the insured were precluded through illegality from making claims against the liquidator.

In *Phoenix General Insurance of Greece v Halvanon [1988] 1 QB 216] obiter dicta* of the Court of Appeal were directly in point, and were deserving of the highest respect.

There Lord Justice Kerr said that prohibition to the 1974 Act was not limited to the business of "effecting contracts of insurance" but extended to the business of "carrying out contracts of insurance." The effect was that contracts made without authorisation were prohibited by necessary implication and therefore void.

Once performance was expressly forbidden it was forbidden, and the fact that the other party did not come within the prohibition because he contracted otherwise than by way of business made no difference.

Mr Pickering relied on *Archbolds [1961] 1 QB 374, 387.*

There Lord Justice Pearce said that where one party was ignorant of a fact that would make performance illegal, he did not feel compelled to conclude that the contract was illegal so as to debar the innocent party from relief. He said so unsatisfactory a conclusion would "injure the innocent, benefit the guilty, and put a premium on deceit."

That undesirable conclusion of debarring an innocent from contractual relief was inescapable if the court decided there was a specific statutory prohibition on performance of the contract. The difference resided in the illegality being collateral to the contract.

Mr Pickering sought to rely on an implied term or warranty that Cavalier would perform the insurance contracts lawfully. That which was prohibited could not be enforced directly or indirectly. The implication of the proposed term seemed indistinguishable from indirect enforcement.

The last issue was whether the insured could recover their premiums, on the basis that they were paid for a consideration which wholly *failed*. They had no knowledge or notice of the illegality, and were not personally involved to any offence or moral turpitude.

In general the test to determine whether a plaintiff could recover money paid pursuant to a transaction affected by illegality, was to ask whether he had to set up the illegal transaction to establish his cause of action for recovery.

If that was a universal limit to the right of recovery, the present insured would fail.

There was, however, an exception to the general rulè, which applied where the parties were not *in pari delicto*. The innocent party could recover notwithstanding that the illegal transaction had to be pleaded to establish his cause of action.

In the present case where the statutory duty was exclusively on the insurer for the protection of insured persons, and the insured had no reason to suspect he was being asked to enter into a void contract, the circumstances amply justified treating the insured as not equally delictual and as being entitled to recover the premiums. Accordingly, the liquidator could properly deal with claims in the liquidation on the footing that Cavalier was never authorised to write extended warranty policies; and he could properly admit proof from extended warranty policyholders in respect of premiums paid.

For the liquidator: John Brisby (Booth & Blackwell).
For the trade creditors: Nicholas Legh-Jones QC and DP Joseph (Travers Smith Braithwaite & Co).
For the insured: Murray Pickering QC and David C Owen (TA Capron & Co, Grays).
For Multi-Guarantee: Elizabeth Gloster QC (Clifford Chance).

Rachel Davies
Barrister

'An impossible organisation, but the only one that works'

Continuing his series, **Christopher Lorenz** examines how Electrolux is trying to reconcile the need to decentralise yet co-ordinate its domestic appliance companies

At the Mecca of the world household appliances industry, the annual Domotechnica trade fair in Cologne, Electrolux this year launched a sophisticated new fridge-freezer, the "Quattro 500", with several temperature zones for storing different types of food, including fresh chilled produce.

Under the leadership of Heikki Takanen, a Finn based in Stockholm, the product was designed and developed for "global" markets by a multidisciplinary task force from Europe and the United States, meeting sometimes on one side of the Atlantic, sometimes on the other. Much of the design work was done in Italy, but the product was engineered in Finland with Swedish assistance, and with particular marketing input from Britain. Initial production is in Finland, but if the Quattro 500 is as successful as Electrolux hopes, it may also be manufactured in the United States.

"This approach must become a model for the future," says Takanen. "We not only want to create common projects that span several units, but a process that allows responsibilities to be transferred between them as the projects develop."

Electrolux's ability to manage the development process with this sort of flexibility will be vital for its future survival, as it shifts from its traditional acquisition-led expansion to internally-generated growth.

In this process of "organisational high-tech", as he calls it, Takanen has a vital role to play. For he is one of only three international "product area managers" (product and manufacturing co-ordinators) within Electrolux's Skr 30.4bn (£2.95bn) "major appliances product line" (white goods division), which has 43 factories in 15 countries on two continents. As the group's "Mr Cold", responsible for refrigerators and freezers, Takanen spends at least half his working year commuting between Stockholm and the 13 factories for which he is responsible. His two colleagues, one responsible for "hot" products, the other for "wet", are similarly peripatetic.

A parallel marketing co-ordination staff, under an Italian for Europe and a Swede for the rest of the world, is equally thinly stretched: its remit spans 135 sales companies in 40 countries.

The extreme leanness of this co-ordination effort, and the considerable pressures it creates for Heikki Takanen and his colleagues, is just one of many striking facets of the multidimensional structure into which Electrolux has gradually divided its white goods operations since the mid-1980s.

The process began in earnest in 1984, when it suddenly started to transform itself into a significant multinational through a spate of major foreign acquisitions: first Zanussi in Italy; then White, America's third largest major appliances maker, in 1986; then Thorn-EMI's UK appliances interests, in 1987; Corbero/Domar in Spain last year; and finally (for the moment) part of the Buderus group's West German interests last month.

The white goods structure, which is still evolving in something of a trial-and-error fashion as Electrolux adjusts to changing circumstances – and internal conflicts – has been dubbed by one of its own architects, product line head Leif Johansson, as "a quite impossible organisation, but the only one that will work."

Johansson is the first to admit that "if you ask me who takes the decisions, it's not at all clear". Echoing the constant comment of all long-standing Electrolux managers that people matter mnch more than structure, he says "the organisation only works provided the people involved want it to."

Its senior managers certainly need to be extraordinarily willing and able to communicate openly, informally and constantly – and to tolerate ambiguity. Not everyone in the white goods companies acquired by Electrolux in recent years fits easily into this style of management, especially those Italians and Americans who are used to more hierarchical relationships.

Depending on how one defines it, the product line's structure is either three or four-dimensional – at least one dimension more than in most other parts of the company. This would be more than enough to make most companies blanch. Yet there is considerable logic to it.

Unlike the simpler matrices totroduced by many long-established multinationals which are now trying to co-ordinate themselves on a "global" basis – such as Philips, the Dutch electronics group – the balance of power within Electrolux's white goods business has not been wrenched away completely either from powerful country managers or from decentralised business units, towards an international product division.

Instead the Swedish company has tried from the moment it went multinational to strike a fine – and very difficult – balance between all three of these approaches. The result in white goods (and to a lesser extent in two or three other product lines) is a matrix structure which, more than most, "is hy definition an organisation with built-in conflicts," to the words of Bertil Ljungquist, until recently Electrolux's administration director, and now responsible for senior executive planning.

The thinking behind the white goods structure, and its complexity, rest on a principle which is at the core of Electrolux's corporate heart, and of its ability to understand and control its 23 very diverse product lines – of which white goods is by far the largest and most complicated.

As the group has grown rapidly through the 1980s, it has created relatively small, highly transparent business units within each product line – 500 of them in all. They are constituted as nationally-based companies, with a balance sheet as well as a profit and loss account.

The relative smallness of all these units, whatever their function, not only motivates the managers concerned – as many of them confirm enthusiastically. It also gives senior product line management and the corporate head office a clear view of the units' performance.

"After our big acquisitions it was absolutely necessary to structure the entities in the right way, so that each was given a clear role," says Lennart Ribohn, Electrolux's deputy chief executive and chief financial officer.

In some product lines these companies resemble conventional strategic business units, with a full range of responsibilities and functions. In white goods the units in each country are divided for greater clarity and ease of co-ordination into: on one side, national marketing companies (35 of them, each with about four separate companies - and hrands - reporting to them); and, on the other, 29 international product development/production units ("product divisions" in Electrolux's confusing parlance), each with at most two factories, usually in the same country.

Each product division is allocated international responsibility for a certain set of products, which are normally not duplicated elsewhere; this rule was applied with some rigour after the Zanussi takeover, and led to considerable switching of manufacturing allocation between Italy and Electrolux's existing French and Scandinavian factories, with the Italian plants a major net beneficiary. But since the UK and Spanish acquisitions in 1987-88, some dnplication has re-emerged. *Whether it will need to be* ironed out is a much-debated question.

In an arrangement which is intended to make Electrolux more adaptable than its major competitors to changing external conditions, and to expose the product divisions to market pressures, the divisions and the sales companies operate at arms' length, in what Leif Johansson claims is "a complete customer-supplier relationship" – including the freedom to negotiate transfer prices between them.

A further factor exposing prodnct divisions to the marketplace is their partial responsibility for product planning.

In product lines other than white goods the influence of Electrolux's traditional country managers has been scaled back or abandoned entirely; until the introduction of the group's product line structure in the early 1980s, such executives had responsibility for all Electrolux activities in each country.

But the size and complexity of the multinational prodnction, marketing and sales network in white goods have prompted Johansson to retain a strong country manager function within his product line, with primary responsibility for all units in their territory.

In Britain, for example, this *role is played by Roger Baxter*, a former McDonnell Douglas and GEC manager who joined Electrolux three years ago. In Italy it has been split between two managers, one responsible for overseeing the product divisions, the other for marketing and sales.

The main task of the country managers, according to Nevio Pollesel, Baxter's marketing deputy, "is to exert strong pressure on the local product divisions and sales companies to perform."

Given the tough reputation of Baxter and most of his counterparts elsewhere, that is putting it mildly. Baxter himself says that "many country managers feel they still control their own destiny."

As Johansson is the first to point out, this structure intentionally creates at least four kinds of tension: between product divisions and marketing companies; between these two types of entity and the country managers; between the country managers and Johansson's international "prodnct area managers" (Heikki Takanen and co); and between country managers and the international marketing co-ordinators.

To some extent, these tensions are mitigated by the fact that Electrolux's traditional corporate culture has always fostered quick decision-taking. To quote the *understated language of the* company's internal literature, "it is not quite 'proper' to fail to reach an agreement."

Yet, as the structure has been gradually introduced, most recently in Italy and the US last year, it has provoked quite a number of disputes. Time will tell whether the problems are permanent, or whether they are merely teething troubles, while managers of various nationalities adjust to the ambiguity of the system – or are replaced if they fail to do so.

One persistent source of tension is that several country managers have been reluctant to see sales companies in their territory buying products from Electrolux product divisions abroad instead of alternative products from local units – the profitability of which is included in the consolidated national accounts for which each country manager is responsible.

Johansson stresses that country managers have overall national responsibility for sales, regardless of where products are made. But he concedes that this issue frustrates him so mnch sometimes "that I could climb up the wall."

Such strains were exacerbated two years ago when, throngh Johansson's newly-created Marketing Europe staff unit, discussions began about how the Zanussi and Electrolux brands should be co-ordinated across frontiers. "We had quite a big discussion about the relative roles of country versus international management," he says.

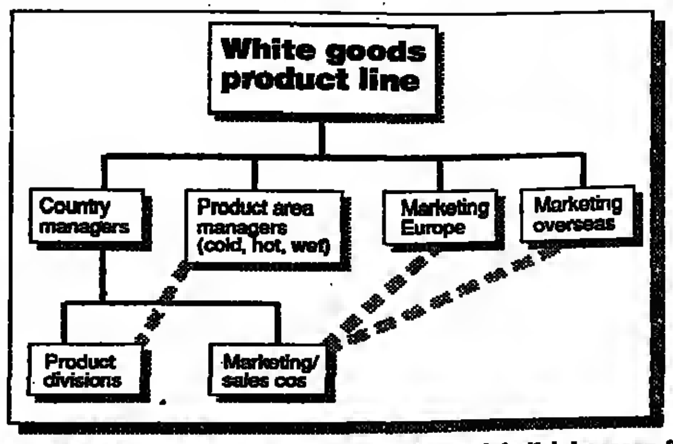
Some repositioning of the two brands has since started, ahead of the day when they may be promoted across frontiers hy satellite advertising and other cross-border media.

To ease the sitnation, Johansson then co-opted the country managers onto a new forum, duhbed the "1992 Group", to oversee the development of all aspects of product line strategy. This has helped them develop a more international perspective, but Johansson admits that several top Electrolux colleagues would still prefer him to go "all the way to international management" by abolishing the role of country managers – or at least hy weakening their role considerably.

Johansson is resisting. That would be wrong, he insists, "because they're damned good at their jobs" – which, apart from defending national interests internally, also includes dealing with large retail customers and trade unions, as well *as overseeing* such issues as national salary structures.

His reluctance to agree also stems from his knowledge of other multinationals' experience. "There is too much of e tendency to try to solve organisational problems by designing a structure that *quietens* conflicts, rather than hringing them to the surface," he maintains. "Issues such as whether to invest in Italy or Britain should be taken head-on in an ad hoc way. If the structure can cope with 80 per cent of the conflicts that's fine – we're quite happy to deal with the rest at the top."

The first article in this six-part series appeared on Monday. The next, on Friday, will describe the sensitive process by which the largest European company acquired by Electrolux, Zanussi of Italy, is being integrated into the group.



In the multi-dimensional structure of the white goods product line, says its head, Leif Johansson (left), "It is not at all clear who takes the decisions." The effectiveness of the system relies heavily on the tact and co-ordination skills of peripatetic "product area managers" such as Heikki Takanen

TELEVISION

From how we were, to the way we are

Christopher Dunkley praises a new series that dares to challenge the norm

WHAT IS television drama going to mean, come the de-regulation nirvana? It is already happening, so you only have to switch on your set to see endless daily supplies of Australian and American soap, and our own producers reduced to providing "mini-series"; or four- or five-part stories, written to rigid formulae, with their backgrounds in spying, drugs, or the Cold War, and all involving hard-faced men, soft-chested women, and guns.

These mini-series are glossily produced, will sell on the international market, and if you are tired after a hard day's work they will entertain you momentarily without making any demands of your thought processes or emotions. They are equivalent to a Rick Astley record or an Agatha Christie paperback: sought out by a huge public which wants *not* to be shocked, and *not* to be challenged.

And yet, just as it had begun to look as though this was to be our diet for the foreseeable future, along comes Granada – again, for it was Granada that brought us *Brideshead Revisited* and *Jewel In The Crown* – with *After The War*: a whacking great 10-part, multi-million pound series, written by Frederic Raphael, staffed by a huge cast of wonderful actors and actresses, spanning 25 years in the lives of the British middle class intelligentsia, and attempting, it seems, to answer the question "How did we become the way we are?"

That is scarcely a new question, of course. It lay at the heart of John Mortimer's 1986 serial *Paradise Postponed*, which inhabited a precisely similar home-counties world of journalists, lawyers and television producers, and concerned itself with much the same period of history: 1945 to 1985, while Raphael's new series runs from 1942 to 1987.

Raphael's use of voice-over, one of the most ignored techniques in television drama, is powerful, economical and fast

Moreover, Raphael himself pursued pretty much the same inquiry, within the same milieu, in his 1976 series *The Glittering Prizes*. Intriguingly *After The War*, which began on Friday with an episode showing the two main characters, Michael Jordan and Joe Hirsch, at a prep school in the middle of the Second World War, covers all subsequent periods of their lives up to the mid-60s, *excluding* their undergraduate years. Perhaps Raphael has already said everything he wants to about university life – or perhaps the idea is for us to combine *The Glittering Prizes* and *After The War* in our heads; after all Adrian Lukis, who plays the adult Michael Jordan, looks uncannily like Tom Conti, the star of the earlier work.

Last week's school drama (splendid locations, authentic vintage vehicles, both life-size and Dinky, utterly convincing cabbalistic atmosphere) set up the themes for the whole of the rest of the series. Michael Jordan's English Jewishness sets him slightly but, in his own view unmistakably, apart from his fellows.

However, the European Jewishness of Joe Hirsch, who arrives as a refugee from Nazism, makes him a true outsider, both in his own view and that of his fellows – though it provides the grounds for the special relationship between Joe and Michael which will continue throughout the time that we know them. The mixture of companionship in mutual defence against a threatening world, and dislike arising from instinctive distrust, is, perhaps, the most successful and powerful relationship that Raphael has created in this work.

In Episode Two, while Michael and Joe are, presumably, at their public school, we watch Michael's father, barrister Samuel Jordan – another mature and impressive performance from Anton Rodgers, who keeps adding more and more high quality work to all those sitcoms – as he investigates the background of Hermann Pfaff, a German businessman who may or may not have been a Nazi. "You don't believe me?" Pfaff asks at one point, to which Jordan Sr replies, in one of those lines which Raphael sometimes fits so precisely to character: "Belief is not a commodity in which I've been commissioned to trade."

By Episode Three Michael is in Fleet Street, working for a Sunday paper. Sent to investigate a "domestic" he meets a neighbour named Denise who is presented by Charon Bourke as one of many memorable tiny cameos in *After The War*. "Dark brown disappointment, that's how you're going down in Denise's diary," she tells Michael, coyly allowing her dressing gown to slip open. Throughout the series women open their dressing gowns, figuratively and literally, for Michael. Can it really be, as the cognoscenti insist, that Michael is Raphael himself? He goes to Paris and, in a marvellously sustained piece of atmospheric drama, has the great affair which shapes much of his emotional biography.

Episode Four brings Michael's first play (perhaps he *is* Raphael) and the first major interest in his sister Rachel, who is proposing to marry a terrible young fogey of a don. The power of Raphael and Granada is suggested by the bit-part appearance of Michael Gough as a fellow don. Other small roles in other episodes are played by Geoffrey Palmer, Patrick Malahide, Susannah York and others. This episode also brings a good example of Raphael's use of one of the most absurdly ignored techniques in television drama: the voice-over.

"The Israelis were destroying the Egyptian army in the Sinai," we hear Michael say over pictures of him rehearsing actors for his play. "The Russians were poised to cross the Hungarian border . . . and I, through no fault or virtue of my own, spent one of the most blissful afternoons of my life. Was the world falling apart? Probably. Did I know it? I suppose I did. Did I care? God help me – not a bit." It is powerful, economical and fast, and was last used habitually with such effectiveness in John Mortimer's *Brideshead* script.

Haydn Gwynne as Hilda Hirsch, Nicholas Dastor (centre) as the young Michael Jordan and Nicholas Fletcher as the young Joe Hirsch in *After The War*

Episodes Five, Six and Seven, which should be the engine room of the series, are the most (seemingly) autobiographical. Like Raphael, Michael becomes one of the glittering successes of showbusiness and television in the London of the late 50s and early 60s. But the central question of motive – not how we have become the way we are, but why – tends to get lost. Moreover the lines are so clever that you become much too aware of them:

A: "I'd like to transport your house lock, stock and barrel to Beverly Hills!"

B: "Sorry, I'm keeping the barrel!"

C: "For scraping?"

Furthermore, Raphael uses these episodes in a remarkably juvenile way to pay off scores, or anyway to insult actors, directors and critics though, interestingly, he seems almost affectionate towards the Ken Tynan figure, thinly disguised as Benedict Bligh.

Episode Eight takes us, with Rachel, to West Africa and into a seedy, steamy tale at the fag end of the British empire. One of the riches to emerge from Raphael's writing is the way that his characters seem to have an existence beyond the confines of the screen: Jordan Sr is a bridge player and a habitual visitor of his elderly mother; Stafford Canning, a high-ranking diplomat in this episode, was last glimpsed in Paris, 13 years earlier, probing Michael for any homosexual inclinations.

But Rachel's character seems to be almost independent of the author. It never is clear why she ever considered marrying the wimpy don (unless to allow Raphael to have Hirsch come along and dissuade her) and it is even less clear why she behaves as she does on the night her husband dies. Indeed, she herself asks "What did last night mean?" What indeed. Perhaps this is the true illogicality of life, but drama is, after all, an artificial form of life wholly within the control of the author.

The last two episodes bring us, mostly, back to London and to television, and matters move round to neat full circles with the re-entry of Pfaff, Pierrette (Michael's Paris passion), and Rachel's return to Africa.

After The War is entertaining, engrossing, often witty, and not concerned with a northern working class lad forever being snubbed by effete southerners. It is about those effete southerners, whose lives are just as interesting, if not more so. Even though, like Christopher Booker's weird book, *The Neophiliacs*, it tells us more about the how and what of the post-war years than the why, at the end of 10 hours one would be perfectly happy for it to carry on at the rate of an hour a week

Peter Grimes

ZURICH OPERA HOUSE

Several years after his disastrous *Turandot* for Scottish Opera, Tony Palmer has been tempted to have another go at the role of opera producer.

Unlike his work on Puccini, however, Palmer's staging of *Peter Grimes* at the Zurich Opera House keeps details of the composer's personal history well out of the way, and the result is a remarkable triumph.

The production, which is designed by Goran Wassberg and sung in German, strikes the rich seam of psychological intensity in *Grimes* and stresses its bond with middle European operatic tradition. The Zurich ensemble manages to make every minor character count, while chorus and orchestra under Donald Runnicles display dazzling virtuosity. This must surely rank as a landmark production in the opera's growing hold on the continental repertory.

The Borough is nothing more than a gently-raked stage of wooden planking – a filter for shafts of light, mists and steam, and the centrepiece of an almost filmic cross section of tottering figures, wind and rain, in the storm interlude.

The film producer's eye is at work, too, in the range of expression on the face of each character, a window to the inner lives of the opera's family of characters. A foghorn sounds before curtain-up, the auditorium at once point is circled by the flashing arc of a lighthouse and the prow of Grimes' boat mysteriously takes shape out of two flaps rising from the stage floor.

This and the unanswered calls of Grimes are not the only echoes of the 19th century world of *Der fliegende Holländer* in this production, which ends with Ellen kneeling in prayer under the collective gaze of the Borough, as Grimes meets his salvation in death.

In its concentration on symbols, its flawless ensemble work and use of spotlight and theatrical effect, the production packs a powerful dramatic punch. Palmer clearly trusts the music and allows his singers to bring themselves to their parts.

There were some errors of judgment. The scene at the Boar, for example, was simply too diffuse on the open stage, and the later interludes were spoilt by fanciful business, including a completely out of place canoodling session between two young lovers in Grimes' hut. But these were rare exceptions.

Much of the credit for the production's success lies with Donald Runnicles, who brings out the brilliance and passion in the score, as well as its devastating beauty. Britten's rhythmic motifs were unfolded with disarming radiance and logic. Several passages emerged with magnified inner tension – the Grimes-Balstrode duet before the storm was an outstanding example – and there were numerous other examples of a galvanising musical intelligence in the pit.

Hermann Winkler's Grimes illustrated the advantages of having a mature tenor in the role. Not unlike Jon Vickers in his sturdy, seamanlike appearance, he sang with character and insight, and gave a moving portrayal of Grimes the visionary, the misunderstood outsider.

Leana DeVol's Ellen was tall, matronly, noble in voice. The rest of the ensemble, led by Glenys Linos as Auntie, Nadine Asher as Mrs Sedley and Gunter von Kannen's Balstrode, gave an unsoiled, benevolent picture of the human community and its individual foibles.

Andrew Clark

Picture: Alistair Muir

Lynn Seymour and Alexander Sombart in *Anastasia*: artistry seen at full and marvellous stretch

Anastasia

DOMINION THEATRE

I had never dared hope to see Lynn Seymour as Anastasia again. For a decade after the ballet was first staged in Berlin in its one-act version, and later when it became a full-evening work at Covent Garden, *Anastasia* gave Miss Seymour a role in which her artistry was seen at full and marvellous stretch.

It was in the last act, when "The Woman who thinks she is Anastasia" must fight to discover her identity, must race through labyrinths of memory and suffering to convince herself as well as the world that she is the Grand Duchess, that Miss Seymour's greatness blazed and convinced us. Whatever the remnants of the Russian Imperial Family might feel, we *knew* she was Anastasia: her final circuit of the stage on her hospital bed was a triumphal progress.

What seemed at first to be Miss Seymour's retirement from major roles during the 1980s was happily proved to be untrue last season when she stormed back in glory with Festival Ballet in a memorable *Onegin*. Now Festival – as English National Ballet – has done the handsome thing and invited Sir Kenneth MacMillan to reproduce the original Berlin version of *Anastasia* with Lynn Seymour back again in her finest creation.

The staging revives the original Berlin conditions of production penury. (In 1967,the postponement of an expensive *Sleeping Beauty* had meant there was no money for the hurriedly assembled designs from the Deutsche Oper's stocks). So,on Monday night, the Dominion stage was bare save for the hospital bed on which we first see Anastasia. Costumes are simple; a pendant sheet – as in Berlin – shows the projections of the Imperial family that are Anastasia's memory. And there, in a rusty brown dress, hair cropped, eyes shadowed, is Lynn Seymour: purer, more concentrated in her effects, more heart-tearing than before.

Because of the simplicity of this new staging, it seems that MacMillan's structure, the formal devices of his choreography, the weaving of the disparate threads of action into a danced whole, are more pertinent. Every element in Anastasia's tragedy is there, every fugue and harried journey down the paths of memory is plain. That it is so is owed, of course, to the peerless expressive gifts of Miss Seymour.

From the first moment when she moves from her bed – feet tracing the lines of the floorboards which are her only reality, hands outspread as if feeling her way – she has demanded and held our attention and our sympathy. Thereafter, the resource and physical nuance of her dancing – the drained body suddenly acquiring a desperate life; the kicks at Rasputin, fiercely rejecting him; the moment when her husband's passion is turned away so that he must kneel and kiss her hand; the tenderness and spiritual exhaustion – bring utter conviction, invite utter compassion, and demand utter respect for artistry unparalleled in our time.

This is dancing of majestic power, faultless musicality, and – be it gratefully noted – of rare beauty in the curve of limbs, the outline of feet, the communicative force of gesture and pose. It seems to me of prime importance that Lynn Seymour's performance be filmed: not to preserve it for posterity would be a crime against the artistic heritage of our nation.

English National Ballet's artists give fine support. As Miss Seymour's partner, Alexander Sombart is a tower of strength and sympathetic playing, an ideal interpreter of the role of Anastasia's husband. This ENB programme also includes *Etudes* and *Land*, well done; but it is Lynn Seymour and *Anastasia* which make it required viewing.

Clement Crisp

Concertgebouw

FESTIVAL HALL

The Royal Concertgebouw Orchestra Amsterdam returned to London, a month after their last visit, for an interesting programme under an interesting conductor, one new to London audiences in this particular role – Nikolaus Harnoncourt. The event was altogether *too* interesting for South Bank audiences, it seems, since the hall was notably less than full.

Harnoncourt, the guru of the original-instrument, period-style movement, has in recent years formed an unexpected alliance with this modern-instrument orchestra; and it has evidently proved satisfactory on both sides. On this evidence it is a lively and stimulating partnership, not entirely smooth – the opening work, Schubert's Overture in the Italian Style, was persistently untidy, and in the main work, the Eroica Symphony, untidiness was an intermittent threat – but full of striking approaches to the notes and the ideas behind them. Nothing was taken for granted; nothing was tainted with complacency or deadening routine.

The pacing, weighting, and accentuation of the Beethoven symphony showed that Harnoncourt's "period" views of Classical music were being rephrased in the terms of a large modern-instrument band. By and large, very successfully so: the Concertgebouw, that quintessentially ample, deep-toned vehicle for late-Romantic expressivity, was transformed. The textures were airy, clean, well-ventilated; rhythms had bounce without applied force. Where Harnoncourt tended to trip up was in seeming to want to articulate the outer movements more quickly than did the orchestra – a stumble, or even a tumble, seemed near in the codas, though it never *actually materialised*.

None the less, one had the sensation of being brought face to face with this work once again, directly and without fuss; and it was exciting. Between Schubert and Beethoven, the Concertgebouw and Harnoncourt introduced to London Luciano Berio's newest composition: *Rendering*, a work that the composer himself deems to be by Schubert-Berio. It proved to be a collage of Schubertian highlights linked by dream-like passages of distorted Schubertian recollections in which the celesta tinkles away. I didn't feel that Berio had expended an enormous quantity of sweat and tears in *fulfilling this* commission.

Max Loppert

ARTS GUIDE

June 16-22

THEATRE

London

The Merchant of Venice (Phoenix). Dustin Hoffman's Shylock a sympathetic, semaphore-gesturing alien in Peter Hall's fine Venetian Renaissance production. Geraldine James a superb Portia (836 2294).

Much Ado About Nothing (Strand). Alan Bates and Felicity Kendal lead strong ad hoc company in turnabout fortnightly rep with Chekhov's early, astringent Ivanov. Not to be despised (836 2660).

As You Like It (Old Vic). Yet more non-RSC Shakespeare, with an outstanding Rosalind from Fiona Shaw in eclectic, enjoyable Tim Albery revival. Ambitious designs (928 7616, cc 261 1821).

The Black Prince (Aldwych). Ian McDiarmid gives the performance of a lifetime in Iris Murdoch's distillation of her own Hamlet novel. Witty black farce, vitriolic and entertaining (836 6404).

Ghetto (Olivier). Brilliant National Theatre version of Joshua Sobol's Israeli play about the last days of the Vilna ghetto and its resident theatre company. Moving and shocking. Nicholas Hytner directs, Bob Crowley designs, good music arranged by Jeremy Sams. June 8-14, 23-28, July 7-10 (928 2252).

The Vortex (Garrick). Maria Aitken and Rupert Everett in brilliant reappraisal by Philip Prowse of Noel Coward's 1924 study of drug addiction and mother fixation. Mannered, excessive, beautifully costumed. A must for yuppies (379 6107, cc 741 9999).

Henceforward (Vaudeville). Martin Jarvis and Joanna van Gyseghem in bleakly funny and experimental Alan Ayckbourn comedy of future shock and strained marriage. A tale of obsession, devotion, computer music, women as robots, gangs on the streets and a tug-of-love (836 9987, cc 741 9999).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

Hamburg

The World's Theatre. The international festival from June 16 to July 9 will take place in Hamburg, as part of the town's 800th anniversary of its harbour. Organised by the Thalia Theatre with the help of the International Theatre Institut, some 34 pieces from 17 countries will be performed.

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Into the Woods (Kennedy Center Opera House). Stephen Sondheim and James Lapine update favourite fairy tales with a contemporary plot and characteristically challenging songs. Ends July 16 (254 3770).

Chicago

A Funny Thing Happened on the Way to the Forum (Goodman). Stephen Sondheim's most popular musical, for which he wrote both music and lyrics, stars Louis DiCrescenzo as Pseudolus in Burt Shevelove and Larry Gelbart's adaptation of Plautus. Ends Aug 6.

Tokyo

Kabuki (National Theatre). Kanadehon Chushingura. The most popular play in the kabuki repertoire, based on the true story of the 47 loyal samurai, is performed in two self-contained parts at 11am and 2.30pm. Ends June 24 (265 7411).

Shimbashi Enbujo Theatre. Two mixed programmes at 11am and 4.30pm, featuring mainly younger kabuki actors, including Kikugoro and the world-famous Onnagata Tamasaburo. (541 2211).

Les Miserables. (Imperial Theatre) Strongly-cast revival (in Japanese) of the stirring musical of the storming of the Paris barricades. Opens Tuesday (201 7777).

The Phantom of the Opera. Nissei Theatre (045 903 5701). This excellent production (in Japanese) is a carbon copy of the London original.

Blues in the Night. Theatre Apple, Shinjuku. (587 5444). Musical revue from off-Broadway, featuring black music of the 1920s and 1930s. Performed in English.

Jesus Christ Superstar. Japonesque. Aoyama Theatre (0120 489444). Revival of successful Kabuki-style production of Andrew Lloyd-Webber's first hit musical (in Japanese).

SALEROOM

A salute to the Major

Sotbehy's had a simply splendid time on Monday night, selling off the eleventh and final part of the library of that late, great manuscript collector Major John Abbey. The department had cautiously estimated £2m on the 44 manuscripts, but in the event they brought in £5.9m, a fine augury for the Antiquarian Book Fair which opens at the Park Lane Hotel in London today.

There was a rush of records, most notably the £1.87m paid by the Paris dealer Beves for the highlight of the sale, the Monypenny Breviary. This was the work of the two great 15th century French minature painters Jean de Montluçon and his son Jacquelin and includes 50 full-page minatures and 59 smaller paintings. It was produced around 1490 in Bourges for the Scotsman William Monypoenny, who was abbot of the Augustinian convent at Saint-Satur in Berry. The price was a record at auction for a French manuscript and might well find its way into the national collection.

Quarritch, the London dealer, paid £836,000 for a magnificently illuminated Bible made in Bologna between 1250 and 1262. This was a record for an Italian manuscript, while the £572,000 from the dealer H.P. Kraus for a Book of Hours made in Delft around 1485 was a record for a Dutch manuscript. Of English interest was the Clarence Hours, which was made in the 1420s for Margaret Duchess of Clarence, the sister-in-law of King Henry V. It is regarded as the last major English Royal manuscript still in private hands and sold to the dealer Sam Fogg for £286,000.

It has taken Sotheby's 20 years to disperse the Abbey library. The Major, who died in 1969, is regarded as the last of a great generation of manuscript buyers, who included Chester Beatty, Dyson Perrins and Yates Thompson. Having said that we suddenly have a new active collector in this field: J. Paul Getty Jnr.

A much newer collection comes under the hammer at Sotheby's on July 3, and from an unusual source. It is of Old Master drawings and has been assembled by Mr Timothy Clifford, the director of the National Gallery of Scotland. He made his first purchase in 1961 as a 15-year-old schoolboy and the 57 items were mainly put together before 1975, when prices in this field were still very low.

The highlights are a Bronzino head of a woman estimated at up to £40,000, and a design for a ceiling at the Villa Farnese by Antinor, which could make the same sum.

Antony Thorncroft

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Other people's leverage

THE EYE-CATCHING feature of the latest bid for Gateway, Britain's third largest food retailer, is that it is the first to bring a significant amount of American leveraged buy-out money to the British takeover scene. Is it a case of globalisation making for a more efficient market in corporate control? Or a worrying instance of the US exporting one of its less desirable financial habits to a country whose relatively under-borrowed corporate sector now faces a monetary squeeze?

Certainly few bids can have been more global than this one. Wasserstein Perella, the Wall Street investment bank behind the bid, is part-owned by the Japanese securities giant Nomura. The retailer in the bidder's camp is the American Great Atlantic & Pacific Tea Company (A & P), in which a leading West German food retailer, Tengelmann, has a controlling stake and whose chairman and chief executive officer is a British national. This hybrid picture will no doubt be rounded off when the banking community's international brigade makes a contribution to the £1.5bn of debt which accounts for three quarters of the financing package.

Retail expertise

From a public policy point of view this extension of the market in corporate control is, on the face of it, no bad thing. It means that shareholders in Gateway are being offered more for their shares by a company that can claim to bring in genuine retail expertise. While the bid unquestionably involves high leverage, it appears to be less highly leveraged than an earlier offer from Isosceles.

Nor, from a purely British point of view, do the risks appear unduly worrying. Around £2bn of equity is being withdrawn from the UK market and replaced by £½m of equity and near-equity in mainly American hands and £1½bn of debt, the greater part of which will sit on US bank balance sheets. That £1½bn of debt will disappear completely from the overt borrowing position of the global corporate sector because the deal has been so structured that the debt is off A & P's balance sheet.

Yet the black hole into which these liabilities have disappeared is really no more than an accountant's fiction – and a worrying one at that. Should the present deal provide any kind of model for the future, it will give pause for thought to the US monetary authorities. The extent of leverage in the US corporate sector has already raised questions about the Federal Reserve's ability to tighten policy without precipitating trouble for the banks. If much of the risk incurred in cross-border leveraged buy-outs remains in the US banking system, it will add to that problem.

Sensitive to danger

Nor can the British authorities feel complacent. Leveraged buy-outs are now common currency in the British financial system. In view of declining corporate liquidity, prudential supervision will need to be sensitive to the dangers.

Those stem partly from the fact that the erosion of bank profitability in traditional forms of lending to countries and large companies has created immense pressure to find new sources of growth in wholesale business. Leveraged buy-outs and buy-ins are seductive precisely because they have the capacity to absorb large sums and generate significant fee income. But they have not been properly tested in a bear market; leverage has the capacity to magnify losses as well as profits.

In due course recession will impose a corrective. But the one thing it will not do is bring about a more sensible allocation of capital across national boundaries. In a rational world capital would flow from the developed countries to the developing world where the marginal productivity of capital is potentially higher. But the impact of the debt crisis on the banks (and the underdeveloped state of newly industrialising countries' capital markets) is blocking that natural flow.

The result is that banks and investors are forced to look for above average returns in the developed world. Indeed, the rush into leveraged bids and buy-outs is the First World's equivalent of Latin America's resort to capital flight.

Europe's gamble on chips

BY ANY standards, $4bn is a huge budget for a single research and development project. Yet that is the amount which European government authorities and electronics companies aim to spend during the next eight years on a subsidised collaborative scheme intended to develop an advanced semiconductor industry able to hold its own against US and Japanese competition.

The rationale for the programme, Joint European Submicron Silicon (Jessi), is that so many fast-growing business sectors depend on microelectronics that unless Europe controls the latest technologies, its future competitiveness will be jeopardised. Jessi's backers point to the difficulties which many European electronics manufacturers encountered last year in obtaining memory chips from Japanese suppliers, which dominate the market.

Similar "strategic industry" arguments have been used in Europe in the past to justify government support for a variety of industries. Their record has been dismal. What reason is there to think that Jessi, half of which is due to be financed by the European Commission and national governments, will be any more successful?

Flawed policies

One answer is that earlier policies were flawed because they were pursued at a national level. By harnessing resources throughout Europe and by involving chip users and semiconductor equipment suppliers as well as component makers, it should be possible to mount a much more cost-effective effort and to achieve the necessary economies of scale.

There may be some truth in this. However, the importance of technology – and hopes for what Jessi can achieve – should not be exaggerated. Too often European chipmakers, such as Britain's Ferranti and Inmos, have failed to make the most of past technical innovations. Part of the blame lies with managements. Philips of the Netherlands took too long to react to the challenge from Japan, while Siemens of West Germany has been handicapped by a corporate outlook geared too much to heavy engineering. Only in recent years have these companies begun to commit really substantial resources to semiconductors.

Europe's fundamental problem, however, has been the weakness of its market. In an industry which needs large production runs to be profitable, its chipmakers have lacked the sheer volume of concentrated demand provided in Japan by consumer electronics manufacturing and in the US by the computer industry. Europe's large telecommunications and defence sectors have been prevented from playing this role by discriminatory procurement policies which have kept national markets closed and supplier industries fragmented.

Closer working

Jessi's backers hope to overcome some of these barriers by encouraging chip suppliers and their customers to work together more closely. That would extend the scope of the cross-frontier collaboration between electronics companies which EC-sponsored programmes such as Esprit have helped promote. How much such schemes have contributed to product innovation is debatable, but they have stimulated companies to look beyond home markets.

There are limits to what the collaborative approach can be expected to achieve. If pushed too far, it could degenerate into unhealthy collusion, reducing the pressure on producers to compete vigorously in the marketplace and locking their customers into preferential purchasing arrangements.

Europe's semiconductor and electronics industries will only receive the competitive stimulus they need if firm action is taken to liberalise markets and make them work more efficiently. The rapid growth of the mobile telephone business in Britain since its telecommunications market was liberalised is a powerful demonstration of the new opportunities which deregulation can create. The EC and its member governments need to extend competitive policies into other areas, including defence procurement. Without such measures, schemes such as Jessi can, at best, offer only a partial solution.

Christopher Lorenz on corporate doctrines that have lost their glamour

The rise and fall of business fads

FOR the past decade, a flood of large companies on both sides of the Atlantic has been shedding once-prized activities and going back to basics. In the space of just three days last week, the trend was joined by three important British companies: Racal, Saatchi & Saatchi, and United Biscuits. A fourth, BP, reinforced its earlier commitment to the trend.

UB is returning to its real core, dropping fast food restaurants to concentrate on biscuits and other food products. BP is acting likewise, following up its exit from minerals by selling its world coal interests to concentrate again on oil. By coincidence, its arch-competitor Exxon took similar action the same day, selling Zilog, the last vestige of its ill-fated 10-year attempt to expand into electronics.

Saatchi's refocusing exercise (actually the ignominious sale of its management consultancy business) is rather different, in that it still leaves it with a wide range of marketing services activities outside its original advertising core.

Racal, on the other hand, is preparing to divest its original business, defence electronics, in favour of what it now calls its core – telecommunications, data communications and security.

In embracing the rush back to basics, all these companies are dropping a previous fashion which took them in precisely the opposite direction – diversification. At the time, that trend was considered logical and inescapable, just as focus is today.

The same applies to many other lurches in conventional business wisdom over the past 25 to 30 years. The management world may claim otherwise, but it is constantly prey to swings in fashion. The fad rides high for a few years, and its arch exponents are regarded as heroes of their time – be they the Saatchi brothers in the 1980s, or US conglomerateurs, Harold Geneen and James Ling in the 1960s. But then it slides, often taking the heroes with it.

The gospel of diversification is almost certainly the most resilient, pernicious and pervasive fashion of the past quarter-century, in that it has fed, and fed off, other fads. Though many companies have recoiled from it over the past decade, the fashion is far from dead, as shown by US General Electric's foray into financial services (via Kidder, Peabody) and even television broadcasting (NBC), and by Daimler-Benz's extraordinary dash into washing machines, aerospace and weaponry, via AEG, Dornier and now (it hopes) Messerschmitt-Bölkow-Blohm.

Strictly speaking, the fashion predates the current management generation, since it began almost as soon as the war was over, and gathered pace in the 1950s. But in both the US and the UK, diversification really took big business by the throat after 1960. Over the 20 years which followed, the proportion of top American companies (the Fortune 500) which were diversified, or outright conglomerates, leapt from 50 per cent to almost 80 per cent. The equivalent UK figure climbed from 40 per cent to 60 per cent.

The fashion was fostered by many factors, from the apparently inexorable need to get out of certain industries, through the attractions of adding anti-cyclical second and third legs to one's company, to such role models as Harold Geneen's ITT.

An early influence was some decidedly noisy preaching of the doctrine that companies should redefine the businesses they were in. A famous pronouncement from Harvard's Theodore Levitt, which ricocheted round the world consultancy industry and the new international business school network of the late 1960s, was that the US railroad industry would not have declined if it had redefined itself as being in the transportation business – in other words, if it had diversified.

Diversification and conglomeracy were reinforced in the late 1960s and throughout the 1970s by the Boston Consulting Group, which did a roaring trade convincing all and sundry that no company was safe without a "portfolio" of at least three different kinds of businesses, including "cash cows" and "stars."

The result, on both sides of the Atlantic, was a series of motley and illogical constructs. A perfect example in the UK was Reed International, which under Lord Ryder claimed synergy (another mini-fad) between its 60 different businesses, in such fields as paper, printing, publishing, and packaging. Sir Alex Jarratt, his successor, saw things differently. "The only thing they have in common," he once remarked, "is that they all begin with P." Sir Alex's own successors redoubled his divestment strategy and last year got rid of all Reed's manufacturing, turning the whole of the company over to services (a faddish move which has turned sour on many other manufacturers).

The buzz-phrase "back to basics" first appeared in the late 1970s, just after the second oil shock, and in the wake of tumbling conglomerate performance in the marketplace. As the decade turned, the fashion gathered pace, and took on the more elevated title of "focusing on core businesses." According to a recent Harvard study, over half the diversifications-by-takeover made by 33 large US companies between 1950 and 1980 were sold off again by 1986.

Behind this aggregate lie some truly ghastly diversification records. Among the worst are those of CBS, the broadcasting and entertainment group, which divested almost 90 per cent of its new portfolio, RCA and Cummins Engine (both 80 per cent), and Gulf & Western (79 per cent). General Mills, Xerox, Westinghouse, GE and Exxon were not far behind.

The main lesson of the Harvard study, and others before it, is that diversification usually succeeds only if it is in fields which really are related to those of the acquirer's main fields of activity, or where it can transfer skills or share important activities such as supply or distribution. Even successful diversifiers, says Michael Porter, author of the study, "have terrible records when they have strayed into unrelated acquisitions."

Diversification was considered an inescapable trend, just as 'focus' is today

Similarity of management task is also helpful – hence, in part, the continued survival of choosy conglomerates such as Hanson.

The trouble with "back to basics" is the elasticity of the term. What *is* one's "core"? The definition has a tendency to shift as one chief executive is replaced by another, but it can also change in the same hands in response to external circumstances, as under Jack Welch at GE and Sir Ernest Harrison at Racal. The record in this respect is probably held by Allen Sheppard's Grand Metropolitan, the UK drinks and food group, which last summer put its Inter-Continental Hotels chain on the block (for £1.5bn) only a couple of months after describing it as a "core" business.

The propagators of management fashions also change their tunes. Having earned untold millions of dollars, pounds and even D-Marks by applying the portfolio matrix, the Boston Consulting Group (BCG) suddenly turned tail in 1981 and made a remarkably frank admission of its deficiencies. "It can be a helpful tool, but it can also be a misleading or, worse, a strait-jacket." In some industries, BCG conceded, its hallowed criteria of high market share and exceptionally low costs "may not be exceptionally valuable."

To cap it all, BCG recanted its doctrine on "dog" businesses – those with low market shares in low growth markets. Having preached for years that dogs automatically consume cash and "are essentially worthless" (that is they should be taken out and shot), the consultancy turned full circle and invented the concept of the "cash dog" – a belated recognition that many business portfolios in the stagnant early 1980s consisted of dogs and nothing more.

Recantation has also well-nigh scuppered that fad of the mid-1980s, "excellence." Having seen over a dozen of its "excellent companies" stumble in just two years after the publication of that blockbuster bestseller In Search of Excellence, co-author Tom Peters now argues that "there are no excellent companies" – the pace of change has become far too rapid to make any enterprise secure.

Just as the debunking of "excellence" has gone too far – it contained plenty of good, sustainable sense – the same is true of matrix management, the multi-dimensional organisation structures adopted in the 1960s and 1970s by all sorts of multinationals. A public recantation by a director of McKinsey and Co, the consultancy most associated with the concept, helped hasten the move away from it by companies which had found it far too complex to handle. But that helped push multinationals such as Philips towards over-simplistic structures, in which most national power (and much sense of motivation) was given up in favour of strong global product divisions. Philips and others are now having to backtrack towards a hybrid structure which is more acceptable to the many nationalities who work within it.

The most exaggerated fad of the 1980s was globalisation. Here the father of the fashion is undisputed – that same Theodore Levitt of the Harvard Business School. In an article which rapidly became the much-touted creed of the then still rising Saatchi brothers, Levitt argued that modern communications and a host of other influences had created a situation in which "the world's needs and desires have been irrevocably globalised." He added that "everything gets more and more like everything else."

Levitt's rapid admission (in this newspaper) that he was exaggerating, and that he had failed to make a crucial distinction between global products and global brands, did not end the sudden fashion for the globalisation of everything. One advertising agency after another – and a fair number of their clients – dashed to buy up everything in sight in order to build "global presence." Diversification was given another boost.

So was another fad of the mid-1980s – one-stop shopping, otherwise known as the supermarket approach to business. In advertising (Saatchi et al) and financial services (American Express and a bevy of followers) the theory was used to justify diversification into a wide range of supposedly associated services. The idea was that customers – whether individuals or corporations – would increasingly want to buy all their services from the same house. Though practice has proved otherwise in many cases, the fad is still with us, as evidenced by Martin Sorrell's forays into marketing services (in the footsteps of the Saatchis), and by Lloyds Bank's moves into estate agency and life insurance.

Passing tribute should also be paid to other business fads of the past 25 years, such as quality circles, the paperless office, the factory of the future, intrapreneurship, internal new venture groups, and Theory Z. One must also salute today's two highest fliers – brands and strategic alliances. Like most – though not all – of the preceding fashions, both have solid roots, in the sense that they reflect a belated awakening of the wider business world to issues which have hitherto been the preserve of a far-sighted handful of companies. They also represent reactions to changing economic and competitive circumstances.

But, like every fad which has gone before, they are also over-reactions. As such, they can be wasteful of management attention and dangerous to a company's health – and therefore of concern to shareholders.

The judicious observer of tomorrow's latest fashion, whatever it may be, should heed a little-noticed warning issued by Theodore Levitt just after he had launched globalisation upon a gullible world. "When it comes to implementing the ideas in my article", he said, "I assume that the reader is someone of common sense and prudence." In the business world, as in every other walk of life, that is quite an assumption.

OBSERVER

Quiet start with Russia

■ Seventy years ago today a small item appeared in the Financial Times headed British Trade with Russia: Government Insurance Scheme.

"Arrangements have now been made," the article said, "whereby the Board of Trade Risks Insurance Office, 63 Cornhill, EC, will be able to give facilities for the insurance of the inland risks upon (a) British goods imported into Russia, and (b) goods bought by British firms for export from Russia."

Cover was initially offered only for areas in south-eastern Russia and the northern Caucasus, but it is clear thet the British Government was giving one of its first big pushes to foreign trade, and that was the beginning of the ECGD, which celebrates its 70th birthday today.

The FT report anticipated the Overseas Trade (Credits and Insurance Act) 1920 which set up an Export Credits Department with a staff of 13, including three charladies. The word "Guarantee" was formally added to the Department's name in 1926.

Modest Bush

■ President Bush has been dubbed Roger Rabbit by some of the White House staff because he can't stop travelling. Yet he is very modest about it. Ronald Reagan, when be was President, used to ration his public appearances in order to maximise the coverage by the media. Bush hardly seems to worry if anyone is watching or listening. None of his three out-of-town evening speeches this week is being billed as newsworthy by the White House press office, which was quite content on Monday for reporters not to cover a presidential visit to a High School graduation outside Philadelphia. Bush was accompanied only by the usual media pool, mainly from television and the wire services, which goes with the President to all public events. Among newspapers only the Washington Post is sticking to a policy of following the President wherever be goes.

Upside down

■ One comes increasingly to the conclusion that Glyndebourne has the wrong end of the stick. It is not the champagne and picnic at the interval that makes the odd visitor doze off during the opera. It is the struggla to get there on time, especially by car. The champagne and whatever do exactly what they are supposed to do: they refresh you. Therefore I think that Glyndebourne should reverse its policy and try to see that the first part of the performance is always the shorter. And while on the subject, I think that London theatres and concerts should start much later, so that one can eat before.

Glaxo up

■ The hot dry summer, which some say is a symptom of the greenhouse effect, is good news for the pharmaceutical industry as the population seeks relief from the pollen.

One of the top selling remedies is Glaxo's Ventolin, familiar to asthma sufferers through its distinctive pressurised inhaler. Business is so good that Peter Woods, the pharmaceuticals analyst at Warburg Securities, has raised his forecast for Glaxo's profits this year to the £1bn level. Ironically, the spinning inhalers are propelled by CFCs, the very substance said to damage the ozone layer and perhaps contribute to the greenhouse effect in the first place.

Labour Europe

■ Tory backbenchers are getting careless. Paragraph 28 of the Treasury and Civil Service Committee's findings on the Delors Report on economic and monetary union contains some very strong language. "We believe that it is both possible and desirable for the member states of the European Community, including Britain, to work towards the creation of monetary union, a single currency and the formation of a European Central Bank." It goes on to call for an increase in the powers of the European Parliament and ends: "We believe that the time is now right for Britain to make this historic commitment."

This is almost entirely a Labour Party paragraph, put forward by the once very left-wing Labour MP, Brian Sedgemore. Sedgemore is a former Treasury official who has found his feet on the Treasury committee. There were only two Tories present when he made his proposals, apart from the chairman, Terence Higgins. They voted against, but could not vote them down. So it is beginning to look like a role reversal. Labour is the party of Europe.

Berne Union

■ Back to the ECGD: Malcolm Stephens, its chief executive since 1987, has been elected president of the International Union of Credit and Investment Insurers, better known as the Berne Union.

Stephens succeeds Roberto Ruberti, the head of the Italian equivalent of the ECGD, and the job runs for two terms of one year, provided nothing goes badly wrong in the first. It involves liaising with international agencies such as the World Bank, the IMF and the OECD. The union now has 32 member countries, including quite a few from the Third World. In 1988 its volume of business rose for the first time in recent years: by 11 per cent to $216bn. Total exposure is running at around $400bn. A former diplomat who has also had a spell at Barclays Bank, Stephens may shortly be taking extra responsibilities at ECGD as well, following the publication of the Kemp report on its future earlier this month.

Super chefs

■ In case anyone missed it, there was an intriguing ad in yesterday's Financial Times. A group of qualified chefs – 18 of them altogether – all with overseas know-how in à la carte and banqueting business is looking for a small first class restaurant or hotel, presumably with a view to setting up there. Preferred sites are Surfers Paradise, Daytona Beach, Cape Town or the Bermudas.

Charles Leadbeater on how the courts are limiting British workers' ability to strike

Penned in by legal fences

London commuters struggling to cope this morning with the seventh 24-hour strike by London Underground staff in the last two months would need some persuading on claims by union leaders that British workers' right to strike is in doubt.

Tube train drivers, sub-contract workers in the North Sea and steel erectors on London construction sites have in recent weeks withdrawn their labour in unofficial strikes without penalty from their employers or the courts.

After the 1984-85 miners' strike, the number of workers involved in industrial disputes rose from 538,000 in 1986 to 759,000 last year, and the number of working days lost a year increased from 1.9m to 3.7m.

Since the two-week British Telecom strike in early 1987, which signalled the return of the national private sector dispute, there have been a series of strikes at Ford, P & O Ferries, Land Rover, VSEL the shipbuilders, as well as a swarm of minor stoppages.

Each spring for the last two years there has been talk of a return of industrial discontent with several disputes developing together. Despite legal action by employers the unions have been able to go ahead with strikes at British Rail, after the High Court rejected the employers' claim, and at London Underground after the NUR reballoted its members. The most remarkable decision came yesterday from the Law Lords which gave its sanction to a strike by the TGWU over the consequences of the abolition of the National Dock Labour Scheme, overturning the previous decision of the Appeal Court. Why then, should there be any doubt over the ability of workers and unions to call strikes?

The most obvious reason is the legal action taken by London Underground, British Rail and port employers in an attempt to prevent primary disputes following a ballot. Previously, unions had expected only to get into legal difficulties if they called a strike without a ballot or attempted secondary or sympathy action. Now the right of unions to call strikes over primary trade disputes has been thrown in doubt.

The Government plans to introduce a code of practice governing industrial action ballots which will significantly tighten voting procedures. In addition, it is planning legislation to clamp down on unofficial action.

Many union leaders believe these moves are part of a continuing offensive by the Government and employers on workers' right and union power. But they must also be set against wider industrial relations developments which may be changing the role of strike action in the armoury of collective bargaining.

The increase in the proportion of the workforce which is non-unionised, the spread of single-union, strike-free agreements on greenfield sites, the introduction of extended conciliation and arbitration procedures in established plants, the growth of technical and professional jobs at the expense of semi-skilled manual jobs, and the introduction of more individualised approaches to pay and benefits may mean that strikes will become less common as a way of settling conflicts of interest at work.

In the UK, unlike in many other countries in Europe and North America, there is no positive right to strike. Workers can be dismissed for breaching their contracts of employment by taking either official or unofficial action. Unions can be sued for the damages if they authorise strikes. The only "right" is that since 1906 unions involved in strikes have some immunities from legal actions against them.

The claim that the British right to strike is under attack is that these immunities have been so weakened as to be useless: unions no longer have any protection against legal action from employers.

The first big constraint on unions came in the early 1980s with limits on unions' ability to call secondary industrial action and the introduction of pre-strike ballots. Secondary action has been all but outlawed. Unions have grown so used to ballots that they are now able to use them tactically in pay bargaining. Employers have become increasingly sceptical of their validity as measures of whether people really want to go on strike or merely strengthen the hand of their negotiators.

The increasingly tactical use of pre-strike ballots is in part responsible for employers using the law in a more tactical way. Mr John Monks, the TUC's deputy general secretary, says: "The significance of recent developments is that even ballots over primary industrial action, which clearly involve a trade dispute with an employer may now be questioned."

This has meant that increasingly – in big disputes at least – unions' plans for industrial action will have to run in parallel with plans for legal action.

Thus both London Underground and British Rail have sought to question ballots on purely technical, legal grounds such as the wording of the ballot paper or the conduct of the ballot. These cases marked a new high water mark for judicial involvement in industrial disputes because the courts were asked to comment on the detailed interpretation and meaning of a question on a ballot paper.

Balloting in primary disputes is likely to become trickier for unions. First, the issues at stake are becoming more complex. It is relatively easy to frame a clear "yes-no" question on a pay offer. It is more difficult to frame a clear question when many companies are proposing complex changes to working practices and collective bargaining arrangements.

Second, the 1988 Employment Act has introduced as yet untested provisions about the constituencies which unions have to ballot. The act says that the union requires a ballot majority in every relevant bargaining unit before it can call a strike, and there must be a common link between workers within the appropriate bargaining unit.

Within the break up of national pay bargaining, and corporate restructuring to create more decentralised businesses, it may become more difficult for unions to argue that such common links exist to underpin national strikes.

Thus the British system of industrial relations is becoming much more legally structured, with dispute increasingly channeled into formal, legal procedures. Often negotiations do not start in earnest until a ballot has been called, and then plans for industrial action cannot be pursued until the case has gone through the courts.

The effect is that the British system of industrial relations has shifted away from the principle it has traditionally been based on – that collective agreements should purely voluntary and self regulating. It is becoming more like the North American system, where lawyers are deeply involved in disputes from their inception because collective contracts are legally enforceable.

This has made it more difficult for unions to call official action. But it is not impossible, as is shown by decisions this week by the High Court to the British Rail case and the Law Lords in the case of the docks dispute.

The extra difficulty unions face in calling official disputes may, however, make it more likely that frustrated workers will take unofficial wildcat action. The Government legislation's ultimate sanction is sequestration of the assets of a union as a corporate body if its officials authorise industrial action. It does not affect individuals who take spontaneous action organised through word of mouth.

Although workers taking unofficial action can be dismissed, the Government is considering further legislation to clamp down on this form of strike action.

Mr Bob Hepple, Professor of Law at University College London, says: "The distinctive thing about this Government is that they want to squeeze industrial action out of the system altogether, they just do not want strikes. In other countries such as West Germany, the US and Canada, the law gives preferential treatment to official action. So while it is aimed at limiting strikes it encourages official rather than unofficial action."

Thus political strikes and secondary industrial action have already been outlawed. An by the end of the decade it will be much more difficult for unions to call strikes in primary disputes.

The British "right to strike" will remain. But it will be tightly penned in by a set of interlocking legal fences. Exploited by employers, these will increasingly make the courts the final arbiter of when unions can call strikes.

The unions and the courts

Dispute	Subject	Legal action	Outcome of case
British Rail National Union of Railwaymen June 1989	7% pay offer Changes to collective bargaining machinery	Challenge to balloting procedure– 32 of 75,000 NUR members did not get ballot papers	Ruling in NUR's favour after appeal
London Underground National Union of Railwaymen May 1989	Plans for wide ranging changes to working practices	Ballot incorrectly worded	Ruling in London Underground's favour No appeal
Associated British Ports/ Surrey Dock & Harbour Co/Port of London Auth. Transport and General Workers Union May 1989	Ballot over agreement to replace National Dock Labour Scheme	Employers argued: 1. strike was political so not a lawful trade dispute 2. dockers had obligation under the scheme to remain at work TGWU appeal to law lords	High Court: ruled in TGWU's favour Appeal Court: ruled for employers Continuing
P&O European Ferries/Sealink National Union of Seamen Feb–May 1988	Dispute over changes in working practices at Dover	Employers argued action at other ports was illegal secondary action	Ruling in employers' favour after several hearings NUS fined £150,000 with writ for sequestration

Financial services industry

A cure for acute regulatory fatigue

By Stanislas Yassukovich

The jury is still out on the UK's system of practitioner-based self-regulation of the financial services industry within a statutory framework. The next year or so will determine its shape for the 1990s, but further strain will come when the Government has to implement the relevant EC regulatory directives. The debate on the future blueprint has already begun.

Practitioners have not noticeably warmed to new-style self-regulation. The industry is suffering from acute regulatory fatigue. The system has proved more detailed, legalistic and expensive than we expected. Is it worth paying for the privilege of regulating yourself when – under a full statutory system – the Government might do it with no more bureaucracy, and at the taxpayers' expense?

This remains a question worth posing. But the overwhelming majority in the City, who are not questioning the concept of self-regulation, do question the way in which the "statutory framework" has been interpreted and imposed. The UK is rightly proud of its tradition of self-regulation. In seeking to improve the operation of the Financial Services Act or in negotiating and implementing EC directives, we should not be timid in defending the principle and its benefits.

Happily, we now have the chance for early reform. The City has been particularly concerned at the prospect of US-style settlement-driven litigation under section 62. Now the Government has thankfully agreed to restrict to individual investors the right to sue for loss attributable to rule breaches. Better still, the draft amendments to the *Financial* Services Act by the Government offer a prospect of genuine practitioner-based regulation through self-regulating *organisations (SROs).*

SROs are now discussing with the Securities and Investments Board (SIB) the principles – the moral precepts of the industry – and general rules which the SIB will designate for incorporation into SRO rulebooks. These core rules will be actionable under section 62, but not the principles, though both will be enforceable by the SROs. The SROs will then be free to set more detailed rules, which will adapt the higher order of "designated" core rules to their individual market-places. All rules will have to pass a cost-effectiveness test. The Securities Association is already considering ways of applying a cost-benefit analysis to its own rules.

The market will not give regulators another chance to get things right. Quite apart from EC directives, competitive pressures make it imperative that we agree upon a regime which complements London's existing advantages as Europe's main financial centre, and leaves the industry free to compete on equal terms in the single European market. Complacency based on London's present lead is highly dangerous.

What, then, are the essential elements of such a system? First, rulebooks must be simple yet enforceable. Private investors must continue to be well-protected but market professionals may well need little more than codes of practice to supplement the principles and designated rules. Second, we need consistency where the rules of different SROs cover similar ground.

The basic architecture may be difficult to simplify, but regulation cannot be good regulation if those it protects do not understand who protects them and how. There is a strong case for differentiating more precisely the respective responsibilities of the SIB and the SROs.

At present, the SIB has 69 directly registered firms, of which the building societies form the main category. To discharge its direct regulatory duty, SIB has needed its own detailed rulebook and enforcement staff. The proposed amendments to the act present an opportunity for rationalisation. SIB should be empowered to delegate to SROs surveillance of directly authorised firms, and require those firms to follow the relevant SRO rulebook (all rulebooks remain under the ultimate control of SIB).

Why should the directly authorised businesses not enjoy the economies of scale afforded by the SROs? SIB's role would be to occupy the high ground of the industry, authorising and monitoring the performance of SROs, exchanges and other recognised bodies. It would be the ultimate guardian of the health of UK firms and markets. It would take the lead in the increasingly close co-operation among international securities supervisors and would occupy a unique position based on its closeness to Government and to the SROs.

I refer advisedly to the SROs. I continue to believe that the self-regulating organisations are by far the closest to developments in the markets, be they new instruments, techniques, technologies or types of risk. Yet if the system becomes rigid and bureaucratic, it will become increasingly difficult to engage senior practitioners in its policy-making and enforcement, and the City will have to settle for statutory-style supervision which runs so counter to its tradition. This could frustrate one of the objectives of the act – the enhancement of London as an international financial centre. The task of achieving this should not be underestimated.

Vigilance is required on other fronts, too. Enthusiasm for early agreement on EC directives to liberalise the banking and securities industries must not force an early and unplanned restructuring of the regulatory system. The Securities Association will be pressing over the coming weeks for sensible rulebooks, clearly defined roles for SIB and the SROs, and less duplication between them.

UK regulators must be successful with the current opportunity for reform if London is to maintain its competitiveness as a world financial centre. Only then will the Government have a cause worth fighting for in negotiating Britain's place in Europe.

The author is Chairman of The Securities Association.

LETTERS

Moral courage over Hong Kong

From Mr Richard Harris.

Sir, The people most qualified to judge the Hong Kong situation are long-term Hong Kong expatriates with 20 years experience in Hong Kong and a similar period in the UK, who have no particular axe to grind. One can therefore appreciate the one-sided argument presented by Timothy Raison MP in the Financial Times (June 14) about full UK citizenship for Hong Kong citizens.

The problem is not whether UK citizenship should be given to Hong Kong British citizens. It is that the UK has not safeguarded Hong Kong's future in the much heralded Joint Declaration with China.

This is now worth only as much as China's respect of world opinion – or the lives of Chinese citizens currently being executed in that country. China, by the Peking massacre, has shown itself unready to govern Hong Kong, a sophisticated, western-orientated city.

The 3.28m passports are only required to ensure Britain's commitment to measures that will prevent the Tiananmen killings from being repeated to Hong Kong's Statue Square. The British Government has to understand that it alone can save many lives.

It must also understand that Hong Kong is a very special place to Hong Kong people, who will only leave if threatened by mortal danger. It would seem a brave gamble, but it is actually a cheap way for Britain to hold its head up as an example of moral courage to the rest of the world.

So far our country – which has brought so much moral leadership to the world – has not faced the music.

Richard Harris,
602 May Tower,
7 May Road,
Hong Kong

Taking IT seriously

From Mr D.R. Woodward.

Sir, Alan Cane's "Why senior managers do not take IT (information technology) seriously" (June 13) lacked space to air the important subject of executive education. Many senior managers cannot be accused of "not taking IT seriously" – they do not know enough to form an opinion. But most have had bad experiences with computer systems.

This issue is to define the level and type of education they require: they need to understand IT as they understand the functions of finance, marketing and personnel. For example, they need not know the technicalities of employment legislation in order to deploy and manage staff. Why should the busy executive need fully to understand the technical details of IT or its jargon to use information effectively?

Executives need help and education to understand their role to identifying and managing information as a key business resource, and the part they must play in the appropriate exploitation of IT to achieve business objectives. There is, for many business managers, a wide gap between their business's strategy and the IT services delivered.

Experienced practitioners and academics have a responsibility to help executives bridge this chasm. Our objective must be to generate understanding, commitment and confidence in IT so that business managers can take the visionary leap for 1992 and beyond.

D.R. Woodward,
Hoskyns Group,
130 Shaftesbury Avenue, W1

Cyclists shoot the rapids

From Mr Stephen Langton.

Sir, Your correspondent (June 19) suggests a weir across the Thames below London Bridge to do roughly what the Old Bridge did – perhaps even including the thrill of the rapids at low tide.

In her article on the London Underground (June 19), Rachel Johnson asks where will passengers go (if forced off the system by price increases).

On to their bicycles should be one answer. I have tried it recently; it is convenient but also dangerous. What about a roofed bicycle track floating in the Thames?

Some serious thought should be given to cyclists' problems. Two bicycles in motion take up the same road space as one car. I suppose 10 bicycles can be parked in one car space.

Stephen Langton,
15 Delvino Road, SW6

Pay at the top

From Mr J.D. Sutherland.

Sir, Michael Skapinker's interesting article on top people's pay (June 17) makes little mention of its impact on inflation, or on other, less highly paid, people.

At 8.3 per cent, we have the highest inflation rate in Europe. How do you persuade workers to accept 7 per cent when the bosses are sometimes getting more than 10 times that amount?

More important: has the idea of "fair do's" been finally chucked out of the window – to be replaced by "I'm on the plane, Jack. Take off"?

J.D. Sutherland,
41 Westella Way,
Kirkella,
Hull, Humberside

From Mr G.M. Armitage.

Sir, The most distressing feature in the explosion in some public company board salaries is the example this sets to the workforce as a whole.

It is absolutely right that people should receive suitable remuneration for their efforts, but care must be taken, when making large adjustments, to the example set for pay settlements in general. After all, the reduction to the top income tax rate to 40 per cent provides a *great benefit to the higher paid.*

There is no hope of inflation being constrained in the long term unless large settlements are moderated substantially; plc boards must carry the burden with the rest of the workforce. There has been ample opportunity to correct the remuneration of any employees not adequately paid. The fight against inflation is too important to have a privileged section of the community.

G.M. Armitage,
Haymore,
99 Overstrand Road,
Cromer, Norfolk.

View of Opus Dei

From Mr Ives Mascarenhas

Sir, Kevin Rafferty's review of Mr Walsh's caricature of Opus Dei (June 10) seems to reflect a view which is now dated to the late 1970s.

On his retirement, Archbishop Alibrandi, the Apostolic Nuncio in Ireland, said in referring to this: "To the myopic, and often jaundiced, eyes of some liberal critics, the establishment of Opus Dei as a personal Prelature seemed to be prejudicial to the diocesan jurisdiction of the bishops. Nothing could be further from the truth: Opus Dei, in its new legal situation as a personal Prelature, maintains the respect for established ecclesiastical authority it always had."

Your reviewer is also "frightened" by some of Mr Walsh's account. If it were true, so would I be. But some of the defamatory allegations reported in the book have already been judged in a German court to be without foundation. In opting not to say this, Mr Walsh fails to be fair towards Opus Dei.

Ives Mascarenhas,
Information Office of the Opus Dei Prelature in Britain,
5 Orme Court, W2

Hand that rules the world

From Mr Kevin Gavaghan.

Sir, As one of the supporters of the Young Enterprise scheme (Observer, June 5), I endorse your comment on the predominance of girls achieving the top awards for the examination.

We also observe that, in the composition of the Young Enterprise companies (registered with Young Enterprise rather than Companies House), it is the boys who initially hold the key board positions. It is noticeable, however, that when the board is re-elected halfway through the life of the company, the girls mostly take over and run the companies.

This is an interesting parallel with the business world. We see more and more women setting up and running their own businesses – one of the more attractive outlets for their talents.

Over its 25 years Young Enterprise has produced many highly employable young people who understand the principles of business, and will go on to contribute fully to the UK's wealth and welfare.

Kevin Gavaghan,
Marketing Director, Midland Bank,
47 Cannon Street EC4

FINANCIAL TIMES
Wednesday June 21 1989

Rafsanjani leads Iran out of quarantine

The Moscow visit reflects an urgent need for foreign contacts, reports Tony Walker

WHEN Ali Akbar Hashemi Rafsanjani, Iran's powerful parliamentary speaker, announced within days of Ayatollah Khomeini's death that he would go ahead with his planned visit to Moscow this month, it was an early and emphatic sign of Iran's desire to improve ties with the outside world.

Mr Rafsanjani was careful, however, to emphasise on the eve of his departure that the visit had received the Ayatollah's blessing. Mr Rafsanjani quoted Iran's deceased spiritual leader as urging him to "try to enhance relations with our northern neighbour."

Armed with this divine sanction, Mr Rafsanjani, who arrived in Moscow yesterday, was able to go ahead with the visit in spite of the fact that Iran is still engaged in a 40-day period of official mourning. It is a measure of the importance that the regime attaches to its relations with the Soviet Union that the visit is proceeding more or less as planned.

It continues a pattern of intensified contacts with the East Bloc apparent since early this year. This followed the Salman Rushdie affair and the interruption to Iran's gradual opening to the West after last July's Gulf War ceasefire. Attempts by Mr Rafsanjani and his supporters to promote a policy of "Westpolitik" in the latter part of 1988 were severely set back by the row over The Satanic Verses.

Mr Rafsanjani seems bent on resuming that process but he is obliged to tread warily during a difficult transitional phase. Visits to East Bloc states (Bulgaria and Hungary are also believed to be on the parliament speaker's current itinerary) are expected to mark the beginning of the end of the isolationism and extreme xenophobia that prevailed under Ayatollah Khomeini.

Iran's most immediate concern has been to secure assistance in post-war reconstruction and, more particularly, in rearming its military. Short of money and unable to borrow because of an official ban on foreign loans, Iran has been obliged to turn to the East Bloc for less expensive armaments and ones that can be paid for in bartered oil.

"The major factor in relations with the East Bloc is Iran's need to re-equip its battered armed forces," said a Western official in Tehran. He said that Iran's defence procurement had two objectives: these were its need to diversify sources of supply and to secure a transfer of technology to its own military industries.

In April, Iran is understood to have reached agreement with the Soviet Union on a fairly large consignment of arms, including 300 T-72 and 150 T-54 and T-55 tanks, 200 130mm artillery pieces and 2,000 military vehicles. This agreement, while important, will not make much impact on Iran's requirements. "This is only a drop in the bucket of what is needed," said the Western official.

Recent reports that Iran was also in the market for Soviet MIG-29 aircraft and T-82 tanks were discounted by military attaches in Tehran on the grounds that these items would be too expensive. If money was available, Iran would probably prefer to buy sophisticated military equipment in the West.

Iran is also buying from China and North Korea. A visit in early May to Peking and Pyongyang by President Ali Khamenei resulted in arms agreements but no details were released. Significantly, Iran recently increased oil shipments to both countries.

Iran has also been in frequent contact with other important Third World arms suppliers, notably Brazil and Yugoslavia. But no important arms deals have been announced since the end of the Gulf War.

The first half of 1989 has seen a flurry of high-level contacts between Iranian and Soviet officials. The visit to Tehran in February of Mr Eduard Shevardnadze, the Soviet Foreign Minister, helped to break the ice.

Iran and the Soviet Union are now engaged in discussions on a range of co-operative ventures, including industrial projects, reconstruction of steel and power plants, Soviet participation in the construction of the Tehran metro and a joint shipping line on the Caspian. The Soviet Union has announced that it will extend a 1.2bn roubles ($1.83bn) credit to Iran.

Among important issues to be discussed by Mr Rafsanjani in Moscow is the supply of 2bn-3bn cubic metres of gas annually to the Soviet Union, beginning next year. This would be destined for the energy-starved Azerbaijan region across the border from Iran, but there is also interest in transporting Iranian gas to markets in Europe though Soviet pipelines.

The two neighbours would seem to have a strong mutual interest in improving ties after a decade of hostility during which Moscow was often bracketed with Washington as one of the Islamic revolution's principal enemies. Ayatollah Khomeini said once that each was worse than the other.

The Soviet Union has long been concerned about the influence of Iranian militancy on its restless Moslem minorities in its southern regions bordering Iran. Pragmatists in Iran no doubt see an opening to Moscow as an avenue to a general improvement in relations with the outside world.

Tehran, for the moment, appears to be taking a benign view of Soviet policy in Afghanistan. It has not, for example, made an issue of continuing Soviet air strikes against anti-government forces.

Mr Rafsanjani said before leaving Tehran that he hoped his visit would open a "new chapter in Iran-Soviet relations, and in the history of the region." The parliamentary speaker and putative President might also have said that his visit to Moscow is part of a wider strategy of ending Iran's isolation internationally.

Significantly, the English-language Tehran Times commented yesterday that Iran would work for better relations with other countries as well. "Even though there is a long way to go in normalisation of relations with the West," the paper said, "events of the past two weeks have given Iranian statesmen more room for political manoeuvring."

THE Soviet Union yesterday rolled out the red carpet for Hojatolesiam Ali Akbar Hashemi Rafsanjani, the Speaker of the Iranian parliament, giving him virtual head-of-state treatment as he arrived for a three-day official visit, Quentin Peel writes from Moscow.

He is pictured above being greeted at Moscow's Vnukovo airport by Mr Anatoly Lukyanov (left), the vice president, who frequently deputises on formal occasions for President Mikhail Gorbachev, and Mr Eduard Shevardnadze, the Foreign Minister, before being whisked off to the Kremlin to meet the Soviet leader.

The visit, at the highest level of any contact since the Iranian Islamic revolution in 1979, was effusively described as "an official, friendly visit" by Mr Gennady Gerasimov, the Soviet spokesman, who stressed that Mr Rafsanjani was there at the personal invitation of Mr Gorbachev.

The official welcoming ceremony – usually reserved for heads of state – was held in the Grand Kremlin Palace before the two leaders settled down to their first round of talks.

Soviet officials have been at pains to stress the dramatic improvement in relations between the two neighbours. It is little more than a year since mobs attacked the Soviet embassy in Tehran and consulate in Isfahan because Moscow supplied missiles to Iraq in the Gulf War.

In spite of the enthusiasm underlying relations remain uneasy, with the Soviet authorities concerned about the danger of Islamic fundamentalism sweeping their central Asian republics.

Strong dollar hits hopes of US deficit cut

By Peter Riddell, US Editor, in Washington

THE US Administration is becoming increasingly worried that the appreciation of the dollar may dash its hopes of achieving a further substantial reduction in the country's trade deficit.

Mr Charles Dallara, Assistant Secretary of the Treasury for International Affairs, said yesterday that the current level of the dollar was "a cause of concern for us," – a rare public expression of disquiet from the US Treasury. He said the strength of the dollar "would undermine the adjustment process," in a reference to the US trade figures.

Mr Dallara's remarks go further than those by Mr Robert Mosbacher, US Commerce Secretary, on Monday. Mr Mosbacher expressed concern about the level of the dollar but maintained that US exports would do well if the US currency remained within its limits of the past week.

These comments reflect the growing belief in the Administration that last year's reduction in the trade deficit has been checked and could even be reversed in view of the recent strength of the dollar against the Japanese yen and the main European currencies.

One of the hopes behind the fall in US interest rates two weeks ago was that it might take some pressure out of the dollar, but there are limits to how much further this approach can go.

While the Administration has opposed any further rise in US interest rates – and semi-publicly urged the fall in rates – it is reluctant to push the Federal Reserve too much in view of the continuing inflationary pressures in the US economy.

There have been divisions on the Fed's policymaking Open Market Committee between the regional presidents who generally favour a tough monetary approach to reduce inflation and some of the Washington-based governors who are less worried about the dangers of an acceleration in the rate.

But the resulting policy has been cautious, waiting for clearer evidence of a end to the pick-up in inflation and of an economic slowdown, and responding to market movements in interest rates.

Mr Dallara also said that debt reduction and debt service reduction for indebted nations were not substitutes in total for new lending by the international financial community. He argued that new lending should be tied to the specific needs in each debtor country.

Deadlock in Greece continues

By Andriana Ierodiaconou in Athens

MR Christos Sartzetakis, the Greek President, yesterday set in motion the constitutional procedure for resolving the political deadlock resulting from Sunday's inconclusive general election. The opposition Conservatives defeated the ruling Socialists but failed to secure a majority of seats in the 300-member parliament.

As a first step the president asked Mr Constantine Mitsotakis, leader of the conservative New Democracy party, to try to form a viable government. New Democracy beat the Socialist Party (Pasok) with 44.4 per cent of the vote and 144 seats against 39 per cent and 125 seats.

The president asked defeated Socialist Prime Minister, Mr Andreas Papandreou, and his government to remain temporarily in a caretaker capacity, but Mr Mitsotakis moved swiftly yesterday to challenge Pasok's authority, particularly on foreign policy. The Conservative leader called for collective decision making until a new government was formed.

Mr Mitsotakis also argued that Mr Papandreou should not represent Greece at next week's European Community Summit in Madrid, suggesting the president attend instead.

If the New Democracy leader's attempts at a coalition fail, the president must give the mandate in turn to Mr Papandreou and Mr Charilaos Florakis, the leader of the Communist Alliance, which ran third on Sunday with 13 per cent and 29 seats.

The Communists rejected Mr Mitsotakis' proposal for the formation of a temporary coalition with the Alliance and individual Socialist deputies.

The chances of Pasok deputies defecting to New Democracy appeared minimal. Mr Mitsotakis proposes the coalition would have had the task of setting in motion the parliamentary process for prosecuting members of the outgoing Socialist government implicated in financial scandals.

The Alliance instead hinted at a coalition with a section of Pasok, minus Mr Papandreou who was rejected as the main figure identified with corruption and mismanagement. Mr Papandreou, however, yesterday made a pitch for a coalition with the Communists.

Business attempts to halt exodus from New York

By Janet Bush in New York

NEW YORK'S position as the world capital of financial services is under threat as reduced profitability and increased competition have forced many financial companies to consider whether the value of location in the city justifies the high cost.

This is the conclusion of a task force of more than 40 chief executive officers of financial services companies, formed by the New York City Partnership of business leaders. This group works to improve the city's social and economic climate.

The task force, headed by Mr William Schreyer, chairman of Merrill Lynch, said: "If the city is to retain its traditional role as the world financial capital, it must begin now to address concerns which lead firms to move or expand elsewhere."

His comments came as a report was published in Crains New York Business magazine, saying that Merrill Lynch was considering a shift to New Jersey of 2,000 employees in its back-office operation.

The taskforce called for a long-term programme which would better educate New York workers and improve the fairness of the tax system, particularly by eliminating tax provisions which discriminate against financial service and other service companies. It also urged the city to make it easier to develop office space outside central business districts, and to create a more robust telecommunications system.

The taskforce also urged companies to help improve public schools and increase the availability of child care so that more women can enter the workforce.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio				Dubrovnik	S	23	73	Malta	S	23	73	Rhodes	S	25	77
Algiers	S	26	79	Edinburgh	S	25	77	Manchester	S	21	70	Rio de J'o			
Amsterdam	S	26	79	Faro	S	24	75	Manila	C	32	90	Rome	F	24	75
Athens	S	26	79	Florence	F	26	79	Melbourne	F	13	55	Salzburg	F	20	68
Bahrain	S	32	90	Frankfurt	S	27	81	Mexico City	C	24	75	San Francisco	F	11	52
Bangkok	F	33	91	Funchal	C	22	72	Miami	S	28	82	Seoul	F	25	77
Barcelona	S	21	70	Geneva	S	27	81	Milan	S	26	79	Singapore	F	30	86
Beirut				Gibraltar	C	23	73	Montreal	F	20	68	Stockholm	S	27	81
Belfast	S	17	63	Glasgow	F	20	68	Moscow	C	27	81	Strasbourg			
Belgrade	R	15	59	Guernsey	S	23	73	Munich	F	23	73	Sydney	F	16	61
Berlin	C	24	75	Helsinki	S	24	75	Nairobi	S	23	73	Taipei	R	25	77
Biarritz				H. Kong	S	29	84	Naples	F	25	77	Tangier	F	27	81
Bombay	C	30	86	Innsbruck	F	22	72	Nassau	C	31	88	Tel Aviv	S	27	81
Bordeaux				Inverness	F	20	68	New Delhi	F	33	91	Tenerife	S	25	77
Brussels	S	27	81	Islamabad	C	32	90	New York	S	21	70	Tokyo	C	20	68
Budapest	C	14	57	Istanbul	S	22	72	Nice				Toronto	R	17	63
B. Aires	F	19	66	Jakarta	C	32	90	Nicosia	S	25	77	Tunis	C	25	77
Cairo	S	33	91	Jersey	S	28	82	Oporto	F	21	70	Valencia	S	27	81
Cape Town	S	21	70	Jo'burg	S	17	63	Oslo	F	27	81	Venice	S	25	77
Caracas	C	27	81	Lima	F	20	68	Paris				Vienna	C	16	61
Casablanca	S	25	77	Lisbon	C	23	73	Peking	S	31	88	Warsaw	F	19	66
Chicago	Fg	16	61	London	S	28	82	Prague	F	20	68	Washington	C	23	73
Cologne	S	27	81	Los Angeles	F	17	63	Reykjavik	Dr	9	48	Zurich	S	24	75
Copenhagen	S	26	79	Luxembourg	S	25	77								
Corfu	S	24	75	Madrid	F	26	79								
Dallas				Majorca	S	27	81								
Dublin	S	24	75	Malaga	F	24	75								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Soviet town under curfew

Continued from Page 1

of the lack of skills among the local population, according to Soviet journalists in Alma Ata, the Kazakh capital. In addition, co-operative cafes targeted by rioters, blaming them for high prices and food shortages, are often run by Georgians and Armenians.

Novy Uzen, founded only 20 years ago, is a typical Soviet new town built to cater for the crash development of the oil and gas industries, without proper provision of social amenities, according to Mr Valery Burinkov, correspondent in Kazakhstan for the newspaper Sozialisticheskaya Industria.

He said nothing could grow in the surrounding desert, as a result of which the town is continually short of fresh fruit and vegetables and adequate water supplies. Prices are also much higher than in the main towns of Kazakhstan.

There is also high unemployment among young people, who are not trained to do skilled jobs in the oil industry.

However, he discounted the racial factor as the major cause of the riots, saying that socio-economic conditions were more important. Apart from Kazakhs and Azeris, the town includes a whole variety of ethnic groups such as Russians, Armenians, Georgians, Chechens and Ossets.

The Tass report last night said that two of the dead in the riots were Kazakhs, and one was from the minority Lezghin group from Daghestan. Forty-two rioters had been detained.

"Efforts to stabilise the situation are being hindered by extremists who have not abandoned their attempts to kindle ethnic conflicts," it said.

Although the disturbances have been on a much smaller scale than the recent race riots in neighbouring Uzbekistan, there are ominous similarities for the Soviet authorities.

Both have erupted in areas with bad social and economic conditions, where for the first time reports admit to widespread unemployment, especially among the young.

In both cases, officials have blamed unidentified "instigators" for exploiting economic grievances to spark ethnic rivalry. There have certainly been racial aspects to the clashes.

In Uzbekistan there was also a religious element, with Islamic fundamentalists accused of having a hand in clashes between the majority Sunni Moslems and the Shia minority.

Latest figures for the Uzbek disturbances say that 99 people died in the Fergana valley when crowds of Uzbek youths attacked Meskhetian Turks. More than 1,000 people were wounded, 753 homes burned down, as well as 27 government buildings, a Soviet Interior Ministry spokesman said.

A graphic report was published in Trud, the mass-circulation trade union newspaper, blaming "a guiding hand behind the criminal groups".

The reports suggest that the authorities may be hoping to blame unofficial nationalist groups in Uzbekistan, although Mr Nikolai Ryzhkov, the Soviet Prime Minister, himself accused local Communist Party officials, and even members of the police, of connivance.

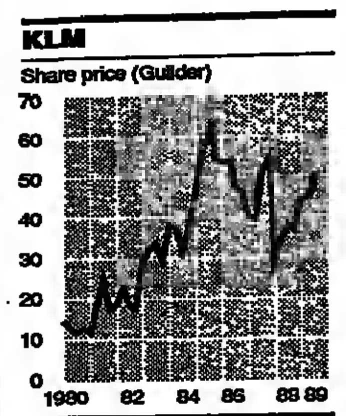
THE LEX COLUMN

Cashing up at Gateway

The market thinks the battle for Gateway is over bar the shouting, and is not even expecting much of that. Probably Isosceles has lost, although it does have a few cards left should it choose to play them. It is Gateway's biggest shareholder with 19 per cent, and its offer contains a touch of equity, the value of which it may be able to talk up a bit. Isosceles can also argue its case - somewhat academically as Wasserstein Perella is offering cash - on the merits of the opposing retailing strategies. However it is doubtful whether it would win; even though the food retailing analysts are wedded to the Isosceles notion that superstores and small supermarkets do not go together, the rival plan to divide up Gateway's business regionally seems sensible enough. Moreover, Isosceles has no retail management to speak of, while Mr Wood has shown himself capable of transforming a loss making A & P into a tolerably profitable retailer, repaying a pile of borrowings at the same time. Unfortunately, Mr Monk - not exactly perceived as a plus for Gateway - comes as part of the new deal, but as he has ceded ground on the question of disposals he may no longer be seen as a liability.

Much now depends on Mr Weston, who despite his supportive words about the Wasserstein package, in the end will presumably sell his 15 per cent stake to the highest bidder. But given the tightness of the financing, any improvement over Wasserstein's 225p will not amount to much; and for the moment, the market is right not to put any money on it.

KLM



The market has little enough idea of how much KLM is paying to spread its wings two-thirds round the world. But it can be relatively certain of one thing: KLM's twin deals with Northwest Airlines and Sabena reflect the shape of things to come in the airline industry. That could mean that KLM ends up being the prototype of Global Airlines Inc, the first carrier with the global route network viewed as essential for success – or even survival – in the 1990s. Alternatively, it could mean that KLM is merely the first of a long line to have its ambitions frustrated by the regulators.

Details of either deal are scant enough to make it difficult to predict the regulatory implications; but one can be certain that regulators on both sides of the Atlantic will be working hard to ensure that no unfortunate precedents are set. Brussels could prove more of a problem than Washington in this regard. Deregulation of the European industry will eventually put more than just Sabena at risk. Competition officials will be asking whether they really want to allow the concentration of power in already powerful hands – as in the three-way KLM/British Airways/Sabena deal – or whether they wish to force the failure of some smaller carriers.

If the deals go through, KLM should emerge much the stronger. The cash it is probably putting into Northwest should not exceed the cost of three Boeing 747s while giving it access to a fleet of 320 aircraft; and if it puts £50m into Sabena, that is no more than the price of one medium-sized aircraft. It looks a small price to pay for the hope of a more secure future.

Australia

No doubt it was pure coincidence, but the sight of Australia's prime minister, Mr Bob Hawke, drumming up support in the City yesterday, only a couple of days after his country reported its worst ever trade deficit, is a reminder that international confidence in Australia is not what it was. The huge external debt which is steadily increasing as the country subsidises its surprisingly robust growth rate has forced the Government to raise interest rates even higher than in the UK; and it is still not clear that this exceptionally tight money policy is working.

Indeed, Mr Hawke's message is likely to be listened to even more carefully by Mrs Thatcher than by the City. Like Mrs Thatcher, Mr Hawke has an election in mind, although his timetable is considerably shorter. If he is to restore international confidence in his Government's economic management and prevent another embarrassing downgrading in the rating of Australia's external debt, Australia will almost certainly need to have a recession within the next six months or so, in order that interest rates can be cut in the runup to the next election.

Already, there are signs of financial pain, but the UK authorities should note that it has taken record 17 per cent mortgage rates to curb Australia's housing boom. Meanwhile, the slump in the share price of Hooker Corporation, the property and retailing group, is a barometer of the growing financial difficulties now facing many of Australia's more highly leveraged businesses. The Australian equity market is holding up reasonably well, and prospective industrial earnings multiples of a shade over eight look positively cheap compared with the UK – especially if one believes that the UK has not yet faced up properly to its own economic difficulties.

Euro Disneyland

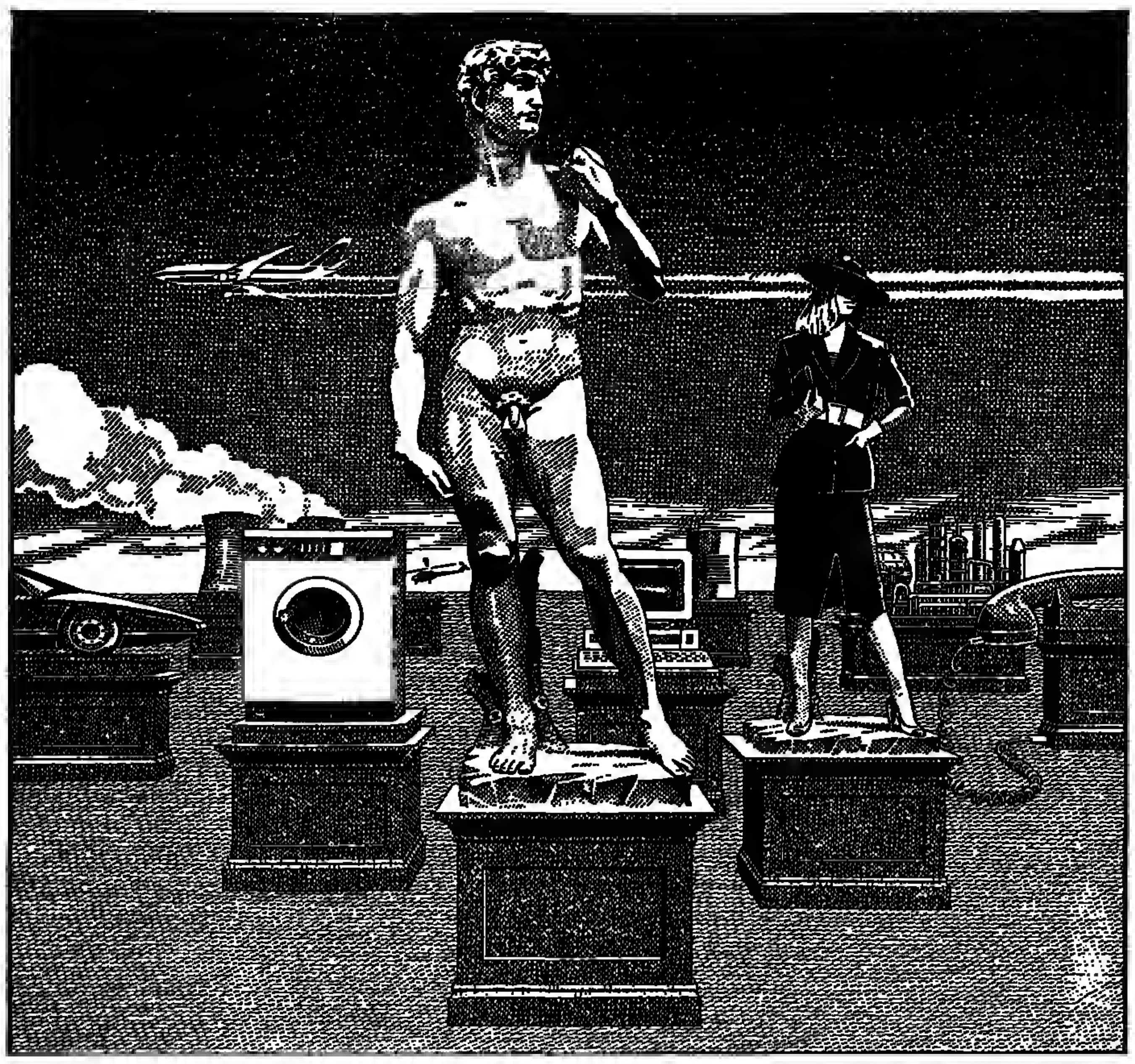
Warburg Securities' "independent" 113 page report on Euro Disneyland recreates all the excitement of a visit to the Magic Kingdom and even gives an insight into the family life of Walt Disney himself. Of more interest to investors, though, it drops a pretty strong hint about the pricing of the forthcoming £500m issue: the sums are based on a 20 per cent return to shareholders during the construction phase, and 12 per cent once the tourists go flooding in. The appropriate comparison, Warburg argues, is with Eurotunnel, which despite its longer construction phase and far greater risks is trading at an implied rate of return of 17.3 per cent. Put like that, it seems Disney - which some feared would spoil a potentially wonderful issue by an ugly display of greed - is being unnecessarily generous. However, as Eurotunnel shares have been behaving somewhat eccentrically, too much should not be made of the comparison. Moreover, if investors opt for high yielding debt as the yardstick instead, they might not find 20 per cent a complete steal when they can get much more by helping to pay for Gateway, for example.

SECTION III

FINANCIAL TIMES SURVEY

Facing the challenge of the European single market, many Italian industrialists are worried by the country's return to short-lived governments. The next administration must deal with a formidable sack of unfinished business, writes John Wyles

The political dimension



Italian Industry

CONTENTS

Illustration: Robin MacFarlan

FOR THE naturally sceptical, Italy has long been a corrective to the essentially north European nostrum that strong, effective government is vital to the functioning of the real economy. Unless some extraordinarily unpredictable hand has intervened since the time of writing, today is about the 450th day this decade that the country has been without a fully functioning executive.

During this period, the economy has grown around 20 per cent in real terms – one of the highest rates in Europe – while natural Italian creativity and relish for hard work have transformed industry from a state of financial, technological and managerial weakness to a financially robust, global competitor in a wide range of traditional and new industries, from textiles to aerospace products, from shoes to office equipment.

Labour relations have stabilised at a low level of conflict, and so high is the actual level of business confidence that investment on plant, machinery and investment goods has leapt by 22 per cent over the past two years.

Italian politicians justifiably claim some of the credit for an industrial metamorphosis which has done so much to eradicate the images of chaos, backwardness and inefficiencies of the 1970s. But the population as a whole has tended to regard *il gioco politico* (the political game) as a hindrance rather than a help to the nation's economic development, while the days of political crisis (formally triggered whenever a government resigns) have often been regarded as more benign than those when Ministers are seeking to use their powers.

Old attitudes die hard to the extent that the languid and slightly world-weary Mr Gianni Agnelli, president of Fiat, who tends to embody most of the qualities Italians admire, was reportedly minimising the current political crisis within days of its outbreak on May 19. "I have seen 40 political crises," said Mr Agnelli, "and they have never frightened me."

When it was pointed out that Mr Sergio Pininfarina, president of Confindustria, Italian industry's main representative organisation, was lamenting the latest outbreak of political mayhem, the Fiat chief observed that his friend was doing his job – "he has to say that he is worried."

Nevertheless, there are more industrialists, businessmen and independent experts in the preoccupied Pininfarina camp than in that of the insouciant Agnelli. Italian industry has one priority these days: to prepare financially, technologically and commercially for the challenge of the European single market. Managers see the return to short-lived governments since 1987 as confirmation that the country's political class has not grasped the importance of the fact that its role is central.

"In contrast to what happened during the two previous steps towards European integration (the launch of the common market and the creation of the European Monetary System) when many politicians were determined to overcome resistance from within the economy, much more apparent now are difficulties, objections or, more simply, indifference," said a report* by a group of economists and businessmen, which went to Mr Ciriaco De Mita, the outgoing prime minister, a fortnight ago.

The dossier, organised on the initiative of Mr Gianni De Michelis, the Socialist deputy prime minister, had little new to say about the central problem facing Italy's ability to compete within Europe and on a global scale in the 1990s.

But such luminaries as Mr Tommaso Padoa Schioppa of the Bank of Italy, Mr Mario Monti of Bocconi University and economist Mr Luigi Spaventa have formed their critique around a theme they believe politicians have failed to grasp: that the future is about a competition between economic and political "systems," and such is the weakness of Italy's public finances, administration and services that its efficient industrial sector risks being gravely penalised.

"The necessity is to build a consensus for a policy of adjusting national structures, and to spread an awareness in the political class of the cost that a failure to adjust could impose on the country, on its citizens who work and save, and on those who live on their savings," warned the authors.

It is true to say that most of the political squad from which Ministers are drawn to man Italian governments are aware of the significance of 1992 and of many of the priorities to be addressed. Indeed, when Mr De Mita's five-party coalition took office in April 1988, its programme was specifically directed at passing urgently needed reforms in preparation for "the Europe of 1992."

Thirteen months is too short a while for the Government to have achieved its programme, but by the time political infighting led Mr De Mita to resign, it was evident that the executive and the parliament lacked the political will and organisation to make completion in the final three years of this legislature anything other than an outside bet.

Institutional reform – designed to equip the political system with more rapid and efficient powers of decision – made one significant leap forward by strictly limiting the secret vote in parliament and then came to a halt. Reform of public administration has been limited to one important measure to promote mobility between various sectors but has done nothing to raise productivity or attack entrenched guarantees of a job for life.

On the industrial front, the De Mita Government largely faced up to the restructuring of the public steel industry, but intercrossing political vetoes from the Christian Democrats and Socialists have blocked the amalgamation of public companies necessary for the formation of a competitive railway equipment industry. And parliamentary inertia is holding up the fusion of Italy's three telephone operating companies into a single operation aimed at raising the range and quality of telecommunications services to the European level.

So the next Government will inherit a formidable sack of unfinished business and very little time in which to aim for a higher political score rate. Cabinet and parliament will immediately face some decisions of crucial importance to the industrial sector of which the following are only a sample:

● whether to tighten the budget deficit reduction plan through more spending cuts and tax increases so as to build up confidence in the financial markets in the run-up to the lifting of all foreign exchange controls in July of next year.

● whether to give priority to a new draft law for the small business sector, still dynamic but with an exporting capacity which seems to be weakening, and a manifestly inadequate technological capacity.

● how to build up Italy's research and development powers through a streamlining of public efforts and their more effective marriage with the private sector. At 1.5 per cent of GDP, Italy's R&D spending is the lowest among the main industrialised countries, although, paradoxically, productivity growth has been a larger component of rising national output than in any other of these countries.

● who to appoint at the top of the two largest state holding companies, Iri and Eni, as replacements to Mr Renato Prodi and Mr Franco Reviglio. Their successors will be chosen according to party affiliation but the success of these two managers in eliminating huge losses through restructuring and new alliances has demonstrated that, unlike in the past, this need not be at the expense of managerial quality.

● whether to force a showdown with the unions over pay and organisation in the civil service and local government. Negotiations have begun, but it will need a government of strength and authority to abolish seniority rules and job protection and to introduce productivity concepts that would demolish pracrices built up over a century of coruscating inefficiency.

Seeking to sum up the opportunities and the risks of the next few years, the experts' report to Mr De Mita appealed to the politicians' sense of history. This is not the first time that Italian political leaders have been called upon to bring in profound administrative and institutional change, they said, when, after the Second World War, they had acted positively, "a long period of stability and development followed."

But they went on to point out that there had been other times in Italian history where the political class had failed and had been substituted by another. That these experts should have felt it necessary to refer back to the advent of Fascism is no mean measure of the challenge facing Italy's political institutions.

**Il Mercato Unico Europeo E L'Italia. Materiali per la preparazione al 1992.*

Adolfo Battaglia, the Industry Minister, talks to **John Wyles**

An action plan for the single market

THE PASSAGE of time and the increasingly interventionist instincts of the Italian state have attached to the nation's Industry Ministry an unusually confused patchwork of responsibilities. With activities as diverse as supervision of the craft sector and regulation of the insurance industry forming part of his remit, the Minister for Industry could at any particular time be forgiven for struggling to define his priorities.

In the 1970s, of course, these were more readily fixed for him as Italian governments rushed to cushion the impact of recession and rising unemployment. He became, essentially, minister for aid to industry, readily forking out public funds to sustain struggling companies or sectors, a good many of which still remain dependent and on the nation's official "sick list."

Indeed, the title of Industry Minister could easily be said to be a misnomer since he has no responsibility at all for the state's enormous industrial activities – it is the Minister for State Shareholdings who sets the directions for Iri, Eni and Efim, the great public industrial holding companies.

The present occupant of the ministerial chair, in a grey stone construction of the *Mussolini era off the Via* Veneto, is Mr Adolfo Battaglia, a friendly but rather private man whose readiness to ask questions as much as to answer them betrays his journalistic background.

The fact that he has now been at Industry for two years and will, as likely as not, be there for another two is a frequently unremarked testimony to the stability of Italian government. Already Mr Battaglia has served two prime ministers, Giovanni Goria and Ciriaco De Mita and now, in common with his fellow countrymen, he is waiting to see who will finally succeed in ending the current political crisis by launching Italy's 49th post-war Government.

Mr Battaglia's original appointment as a member of the Goria Government was a clear signal about the direction of Italian industrial policy, or that bit of it which can be attributed to the Industry Ministry. He is a Republican and his arrival in the cabinet introduced a voice concerned to

A voice arguing for a market-oriented solution to the nation's problems

argue for a market-oriented solution to the nation's problems and for a constant awareness of the need to consider the interests and welfare of the private sector.

His belief is that Italian governments are poorly equipped to develop coherent industrial policies because responsibilities are fragmented between ministries and co-ordination between them is poor.

"There are many diverse elements in industrial policy ranging from environmental concerns, research and scientific development, tax policy and foreign policy. For 20 years we have been trying to exercise some co-ordination through inter-ministerial committees, but we often fail because, in the end, each minister tends to decide individually."

Adolfo Battaglia, expected to retain his post in the next Government

Mr Battaglia believes that the recent law strengthening the co-ordinating powers of the Prime Minister's office offers the best solution, providing that the occupant can be induced to use them. "We need an overall vision of industrial policy which gives valid direction for all ministers and, obviously, the Prime Minister should define this general direction."

The Minister says that, in his experience during the last two years, the biggest failure of co-ordination has been in the setting of prices and tariffs administered by the Government. There has been no overall view of their impact on *industry, nor of the effect of* price standstills on specific sectors, such as air travel.

Much of Mr Battaglia's primary activity in the past two years has been a response to externally induced priorities. The failure through much of the 1980s to apply a national energy policy and the referendum of autumn 1987 which in effect reduced the option of nuclear power generation left Mr Battaglia with responsibility for devising and piloting through parliament a new *energy plan.*

He also had to respond to the demand for competition legislation. The Italian political class as a whole has become broadly convinced of the need to provide for consumer and market protection in an era of the growing power of the handful of private industrialists.

But above all, it has become apparent that national legislation is required to complement that already existing and developing at European Community level. A draft law which will place the responsibility for administering competition regulations with a new "high authority" (with a freedom from political interference "as guaranteed as anything can be in Italy," says Mr Battaglia) has passed the Italian Senate and is currently stalled in the lower house, the Camera, because of the political crisis.

But it has been as much through his daily administration of existing legislation as by piloting new laws that Mr Battaglia believes he has brought a new direction to industrial policy. "My basic approach has been to halt interventions in particular sectors and to seek to strengthen the market by, for example, refusing to grant equal tariff rises in the insur-

'My basic approach has been to halt interventions and strengthen the market'

ance sector or by extending the range of goods that small shopkeepers can put on their shelves.

"We have tried to administer old laws according to new criteria, particularly by reducing the element of political discretion in the up to L3,000bn of funds we are in charge of."

Mr Battaglia has his future priorities pretty clearly mapped out if he retains his job in the next Government – which he probably will since this *is more a matter to be* decided by his party than by the next Prime Minister.

Predictably, his action plan stems closely from the need to prepare Italy's public response to the challenge of the EC's single market. This creates an urgent requirement to revamp the administration and origination of Italy's technical norms and certification procedures.

The need will be to ensure that EC legislation is promptly applied and that Italian norms are closely aligned with those of the other leading Community economies since the single market requires mutual recognition of national norms.

Other plans on the stocks include a reshaping of consumer protection laws and a re-organisation of the electronics sector in which 20 companies have been brought into public ownership this decade. "I want to return as many as possible to the private sector," says Mr Battaglia.

Almost every day, he is being lectured by industrialists on the dangers of entering the single market with the current amalgam of sadly inefficient public services and a growing volume of government debt.

"We have to create structures which submit monopoly public services to some market disciplines – and in some areas we are beginning," says Mr Battaglia, citing the importance of a provision he sponsored which is permitting private industry to provide for its own electricity supplies.

As for the need to cut the budget deficit and control government spending, Mr Battaglia wants every major spending item to be scrutinised for its impact on economic efficiency, productivity and growth.

"The philosophy should be that the budget is a vehicle for national development, not for assistance," he says. This *would put a curb on the use of* public money for party political ends, says Mr Battaglia who sees nothing Utopian in his proposal, merely the exigency to avoid a potential financial crisis in the early 1990s.

Lorenzo Necci: success should not be measured in the short term

Alan Friedman on the chemicals sector's event of the year

Enimont is the Great White Hope

TO HEAR the Italians tell it, one would think that the creation of Enimont – the newly-formed joint venture chemicals concern that brings together the state-owned Enichem chemicals company and most of the base chemicals, artificial fibres, fertilisers and synthetic rubbers businesses of the private sector Montedison group – is a panacea for all the sector's ills.

The creation of Enimont on January 1, and the formal transfer of all Montedison and Enichem assets to the company at the end of this month, is undoubtedly the dominant event of the year in the Italian chemicals sector. Enimont combines Italy's two leading base chemicals companies, with 34 per cent of the market between them. But just as the recent alliance between Italtel and AT&T will not change the face of the Italian telecommunications sector instantly, the same is true of Enimont in the chemicals business.

Enimont, which is predicting $11bn of 1989 revenues, is nevertheless seen by many Italian politicians and industrialists as the Great White Hope, and in a nation that last year had the dubious distinction of being the only major Western economy with a deficit – of $6bn – on its chemicals trade. But Enimont, as Mr Lorenzo Necci, its talented 48-year-old chairman, admits, is not going to solve all problems overnight. Nor does the statistical ranking that now places Enimont *among the world's top 10* chemicals groups (in terms of turnover) guarantee success.

Enimont is an important first step for the Italian chemicals industry, and, given the highly politicised and sometimes politically squalid his-

A ranking among the world's top 10 is no guarantee of success

tory of Italian chemicals companies over the past 20 years, it is no small achievement that the company has been formed.

Nevertheless, there are a number of reasons why Mr Necci took pains to stress in a recent interview that Enimont's success should not be measured now or in the very short term, but rather in five or 10 years. For example:

● The company starts life with $4.4bn of debts, or nearly twice its net equity. Some 62 per cent of these debts come from Montedison.

● Enimont is heavily dependent on the commodities end of the chemicals business; something like 70 per cent of turnover comes from low margin and volume bulk chemicals sales rather than from the more value-added fine chemicals side. This is unlike most other major European chemicals concerns and makes Enimont vulnerable to a cyclical downturn in the bulk chemicals market, which is forecast by most senior executives in the sector, including Mr Necci.

● Enimont will this year spend just 2.5 per cent of its turnover on research and

not an easy task in Italy.

● Enimont has a range of duplicated activities that need to be eliminated. It also has a number of small and obsolete plants that need to be closed.

● The company is not nearly as international as competitors such as Hoechst, BASF or ICI; some 85 per cent of production *and 60 per cent of Enimont revenues* come from the domestic Italian market.

Mr Necci clearly has his work cut out. Analysts in London such as Mr Mike Hyde, editor of Chemical Insight, a trade newsletter, say that it will take some time before Enimont makes a dent outside Italy. Mr Hyde notes that Enimont is five or 10 years behind its main European competitors and that "at present Enimont doesn't pose a threat to anyone."

So much for the bad news. There are also a few more encouraging developments to report about Italy's bid to play in the big leagues of the European chemicals sector. For one thing, Mr Necci is the best man for the job, having already steered Enichem from $1bn of losses in 1982 to profitability in 1985. And for as long as the buoyant state of the bulk chemicals market holds up, Enimont's cash flow is healthy.

Thanks to buoyant demand, Mr Necci says that Enimont will this year make a profit of L1,000bn ($700m). He plans to allocate around $1bn for acquisitions in the European chemicals sector over the next three years. This is part of a strategy of seeking to internationalise Enimont by way of both takeovers and joint ventures.

The joint venture strategy is based largely on the idea of asset swaps. At present, Mr Necci is conducting two separate negotiations along these lines, one in the fibres sector with SNIA-BPD, the Fiat-controlled chemicals, fibres, armaments and biotechnology company. The other negotiation is with Orkem, the French state-owned chemicals concern whose annual productive capacity of around 500,000

Critics say the tax decree is a colossal gift to Mr Gardini

tonnes of polyethylene is roughly half that of Enimont.

The Enimont chief has experience in such ventures. In 1986, before Enimont was formed, Mr Necci's Enichem negotiated a joint accord in the polyvinyl chloride (PVC) sector with ICI of Britain; this has proved a successful Brussels-based venture which has helped both companies to cut employment levels, integrate facilities and increase profits.

In addition, Enimont has a reasonably strong European position in such niche markets as elastomers, detergents and acrylic fibres. In detergent intermediates Enimont is estimated to have a 30 per cent market share, compared with 20 per cent for Petresa. As for the European acrylics market, Enimont says it has 29 per cent, compared with about 25 per cent for Courtaulds of the UK. In elastomers (synthetic rubbers) Enimont claims a 21 per cent share in Europe against 15 per cent for Shell.

On the financial side of Enimont, a group of investment banks including Morgan Stanley, Goldman Sachs, Mediobanca, Credito and IMI are busy organising the placing of 20 per cent of Enimont's equity, to raise more than L1,000bn of funds. This will help reduce indebtedness, lead to a stock market quotation for Enimont and lower the shareholdings of ENI and Montedison in Enimont to 40 per cent each.

Meanwhile, in the private sector, Mr Raul Gardini's Ferruzzi-Montedison group continues to hold some of the more attractive assets of the old Montedison, including control of Himont, the world leader in polypropylene production. Mr Gardini has come under heavy criticism for his demand that the Italian Government allow him to postpone the payment of L825bn of taxes that would have fell due as a result of the capital gains realised by Montedison through its transfer of assets to Enimont.

Legislation giving Mr Gardini the tax breaks he wanted was presented to the Rome Parliament last November by Prime Minister Ciriaco De Mita's Government. The law, though specially written, was described by the Government as generic legislation. It came under attack and got bogged down in Parliament.

Last month, with the end-of-June deadline for the transfer of Montedison assets to Enimont nearing, the De Mita Cabinet transformed the law into a decree act and approved it. There was no clause in the contract for the formation of Enimont that said these tax breaks were a *sine qua non* for the accord to be completed.

Critics say the decree is a colossal gift to Mr Gardini, who in any case is moving L8,800bn of debts off the Montedison balance sheet and onto Enimont's. They claim the Government should have called Mr Gardini's bluff. But Mr Gardini and his defenders in the political world say the creation of Enimont is of such national importance that the decree is justifiable.

The Brussels staff of Sir Leon Brittan, the EC competition commissioner, is understood to be examining the Enimont decree to see whether it in any way represents unfair state aid that would distort competition in the European chemicals sector.

Thus, all the obstacles have been removed and Enimont has been formed. The creation of this unusual state-private venture has not been without melodrama and controversy, but that is in the best of Italian traditions. The task now for Mr Necci and his workforce of 50,000 is to make Enimont into a serious player on the Europe-wide market while existing European giants plough ahead with more advanced and international strategies. As Mr Necci himself has admitted, the task is something of a race against time.

Alan Friedman looks at how the country's corporate finance scene is starting to change

Gradually, the stranglehold may weaken

FOR MOST of the past four decades one Milanese institution has enjoyed a predominant role in the business of corporate finance. Mediobanca, the influential Milan merchant bank, has acted as a clearing house for nearly all of the big mergers, takeovers and fund-raising operations undertaken by the traditional leaders of Italian industry.

Mediobanca continues to be an extremely powerful bank, and Mr Enrico Cuccia, its 81-year-old honorary chairman, still plays a behind-the-scenes role so important that he is often described by the Italian press as the "puppet-master of Italian finance." Change, however, is on the way.

The liberalisation of Italian exchange controls and the lifting of all restrictions on the movement of capital that is scheduled for next year are two reasons why Italian industry is beginning to find that it has a widening choice of financing opportunities. A more active presence by deal-hungry US and British investment banks is another factor in the gradual opening up of corporate finance alternatives.

Domestically, meanwhile, boutique institutions such as Euromobiliare, which is now controlled by Britain's Midland Bank, are stepping up their campaign to infiltrate the system by generating innovative financing packages. And with an eye on the future, the Big Boys of Japanese finance, such as Daiwa, Nomura and Industrial Bank of Japan (IBJ), have established offices in Milan in the past couple of years.

New pretenders for a piece of the corporate finance pie

The betting of these and other foreign institutions is that as the European market becomes more unified, demand will grow for corporate finance services that go beyond any one nation's domestic market.

Besides the arrival of new pretenders for a piece of the corporate finance pie, the other novelty is that hig Italian companies such as Montedison, Fiat and Benetton have obtained listings of American Depository Receipts (ADRs) that are quoted on the New York Stock Exchange.

Thus far, Benetton is the only Italian company to have actually sold new equity in North America, having raised $104.6m by way of the sale of 7m ADR certificates earlier this month. The issue was not as large as Benetton might have hoped for (it fell short of the maximum range of 8m ADRs), but it showed that an Italian industrial concern can raise equity cash on Wall Street, which in the local context of Milan finance is noteworthy.

The opening of foreign currency financing options is certainly a relevant factor in the corporate finance sector. Big industrial groups such as Fiat, Olivetti, Pirelli and Montedison have long had Swiss and Luxembourg financial vehicles that they have used for international financing, hut now other corporate entities are also beginning to raise more cash abroad.

They are doing this by means of bank loans and bond issues in currencies such as Swiss francs and European Currency Units (ECUs) that offer a lower interest rate than lira loans, and corporate treasurers are increasingly using currency and interest rate swaps to hedge their bets in such deals.

The Eurolira bond market, while still a minnow by comparison with the larger Eurodollar sector, is nevertheless attracting a reasonably steady flow of new issuers among Italian banks and companies.

The role of British merchant bankers is another growing element of the Italian corporate finance picture. These are often one-man operations such as Count Pietro Antonelli of Hambros, Mr Giorgio Cefis of Morgan Grenfell, Mr Robert Berle of Kidder Peabody or Mr Pamfilo Tarantelli of J. Henry Schroder Wagg.

The approach of these operators amounts to a kind of guerilla warfare in corporate finance, relying heavily on contacts and heavy cultivation of clients.

These merchant bankers have tended of late to concentrate on merger and acquisition business as much as financing, especially in the area of cross-border transactions. Mr Berle has been in Milan for six months as the Kidder representative at Mr Jody Vender's Pasfin, an investment and securities house that is well-known as an independent Italian operator and in which Kidder has taken a 25 per cent stake.

Mr Berle stresses that, "given the importance of relationships in doing business here, Kidder Peabody chose to ally itself with a strong local partner that has the characteristics of being non-aligned and also has a good working relationship with everyhody." Indeed, Mr Vender, one of Milan's younger investment bankers, is something of a "slalomist" as he has been able to move between the normally conflicting poles of Italian corporate finance and maintains a good rapport with all concerned.

Among the most interesting recent deals to be generated by a foreign bank was the takeover of effective control of Credito Bergamasco, a Northern Italian private sector bank, by Credit Lyonnais of France. The deal was shopped to Credit Lyonnais by J Henry Schroder Wagg, which identified Bergamasco as a target earlier this year.

The most trail-blazing aspect of the deal was a partial public offer to Bergamasco minority shareholders at the same price (a 63 per cent premium on the quoted share price) as was paid for the first (directly acquired) share stake. As there is no Italian law requiring a public offer in such cases, Credit Lyonnais has generated enormous good-will among small investors, who are normally left to rot by big Italian operators.

Domestically, the corporate finance players include SIGE, the Milan investment banking arm of IMI; Sviluppo, the investment bank controlled by Mr Francesco Micheli, the maverick Milanese financier; Akros, a new bank owned by Mr GianMario Roverato, a former SIGE director; and the aforementioned Euromobiliare and Pasfin.

Small investors are normally left to rot by the big operators

Euromobiliare has been especially active in M&A business, but when it comes to pure corporate finance the smaller banks must still contend with Mediobanca, whicb means the pickings have been leaner. SIGE, in particular, is less aggressive at present than it was a couple of years ago.

Raising equity abroad by means of public offers is still a novelty for Italian industry, although the partial placing of shares is not. Enimont, the new chemicals concern that is jointly owned by Montedison and Enichem, is using Goldman Sachs and other foreign institutions to raise part of the L1,000bn that should come from the sale of a 20 per cent stake in Enimont.

And, aside from the above-mentioned banks, other US names such as First Boston, Wasserstein Perella and Merrill Lynch are becoming more active on the Italian scene. In a growing number of cases, including deals done by Iri and Eni, the two main state holding groups, these US institutions are being called in for valuations, M&A advice and fund-raising internationally.

That is why Mediobanca's stranglehold on the domestic market is likely to slip in future; Italian industry is gradually discovering that it is possible to go over Mediobanca's head and directly to hanks in London and New York.

The change in Italian corporate finance may be gradual, but it is real.

How will public transport cope with next year's World Cup?

On the route from chaos

EVERY DAY Romans make abont 4.5m journeys on the city's hus network and 0.5m on the underground system. But it is unlikely that many politicians, or others who take decisions affecting transport, share the crowded and uncomfortable conditions to which so many ordinary people are subjected when travelling around the Italian capital.

Nevertheless, many must experience the low average speeds to which traffic jams limit cars and buses alike. Like the ordinary Romans, politicians probably also feel some of the inconvenience of a city often close to paralysis. Indeed, there is official recognition of the situation's gravity. But the slowness of decision-making coupled to tortoise-like implementation of transport projects casts doubts on improvements being achieved in the foreseeable future.

"The problem is becoming dramatic," admits Mr Giorgio Santuz, the Transport Minister. He claims, however, that the challenges are being met and that the prohlems will be solved. Having watched the leisurely pace with which the city's underground railway system has been extended, long-suffering Romans are probably right to be sceptical.

Chaos often appears to be the result of a policy which has preferred the private car. Public transport systems in major cities like Rome and Naples are caught in a "Catch 22" situation. As long as the level of service offered by buses and the small metropolitan railway networks continues to decline, travellers will opt for cars, further contributing to difficulties in making improvements.

However, problems are not confined to city centres. Many air travellers, particnlarly those using Rome's Fiumicino and Milan's Linate airports, claim that major efforts are needed to improve the poor service with which they contend. The past year has been particularly difficult for passengers on state-owned Alitalia, the airline suffering massive disruption from strikes as well as the effects of prolonged dense fog in the Po Valley.

As timetables were devastated by cancellations and delays, users asked why the airline seemed incapahle of resolving its labour problems and why Italian airports close down while those elsewhere in Europe continue operating when fog descends. Alitalia, whose long-standing chairman was suddenly replaced last year, seems like an airline under siege. Senior management is silent and statistics on punctuality and labour disputes are unavailable.

"*The exceptional* duration of the contract disputes for flight staff and the bitter conflict connected with the renewal of the ground staff's contract are signs of an industrial relations crisis in the puhlic sector in general and transport in particular," says Alitalia's annual report. Against the 6 per cent average rise in international passenger traffic reported by the Association of European Airlines last year, it is not surprising that the Italian airline gained only 3.4 per cent.

As Alitalia has been buffeted hy the turbulence of the past two years, travellers from northern Italy have increasingly flown abroad from Switzerland or southern Germany. "During the lengthy strikes Italians wanting to travel abroad chose foreign airlines, either flying directly from Italian airports or from airports elsewhere in Europe," admits Mr Santuz.

Alitalia faces a serious image problem, hut Mr Santuz is convinced *that* that the new board's commitment to better service will win back customers. "Italians are glad to fly with Alitalia," he claims.

One of the knottiest problems facing the Minister and Alitalia concerns Milan's airports. Italy's business capital enjoys the benefits of an airport close to the city centre, a 10-minnte taxi drive in smooth traffic conditions. But Linate has a single runway and limited apron space. "Linate airport is saturated," says Mr Santuz. Calls for a shuttle on the densely used Rome-Milan route cannot therefore be answered.

With no possibility of expanding Linate, improvements to services to and from Milan depend on the integration of Malpensa airport, 40 kilometres north-west of the city. "Alitalia has recently agreed to shift part of its organisation to Malpensa and increase operations there," says Mr Santuz, noting thet a rail link will be completed by 1991 and npgraded road connections ready next year.

Other airlines will then be shifted from Linate to Malpensa. Mr Santuz has no illnsions about the reaction which enforced transfer will bring. "Last year there were violent protests from the airlines when I issued a decree imposing limitations on flights into Linate," he says. Bnt he considers that, once the surface transport links are operstional, the Linate-Malpensa dichotomy will be comparable to London's Heathrow-Gatwick.

"No decisions have yet been made on who should move," Mr Santuz reassures. He can be certain that foreign airlines will examine closely the criteria for transfer on which the ministry is working. They are also following attentively the progress of deregulation and liberalisation of air transport in Italy.

A key point is fares. Though the Minister agrees thet price competition is good, he links fares to safety, contending that competitive pricing has a cost in safety terms. Advocating a controlled form of deregulation, he says: "I would like to see tariff policy agreed within the European Community, with the Council of Transport Ministers setting grids within which tariffs can move."

That Mr Santuz envisages Alitalia's accounts as the henchmark for fare-setting may provoke adverse comment from competitors. But the Minister indicates that inefficiencies will not be allowed to affect prices. "Alitalia must understand that it competes with numerous other airlines," he says, noting that after 1992 the company will face tougher conditions.

The Minister admits that Alitalia enjoys preferential status, emphasising that its management must be aware the airline cannot stay protected. "Until now the airline has had a monopoly. The convention between the state and Alitalia, which guarantees a primary role for the airline, expires in 1990," notes Mr Santuz, adding thet renewal will take account of international developments.

However, increased competition is already starting, with the growth of tbird level operations, the extension of routes by existing carriers like Lufthansa and the arrival of new ventures like Air Europe, whose London-Rome tariffs significantly undercut the prices charged hy the Alitalia-British Airways cartel. "Air Europe will decide its own tariff and service policies, and the Italian Government will take note," says Mr Santuz guardedly.

Italy's troubled state railways are also eating into Alitalia's position. New express services link Milan to Rome in under four bours and journey time will be cut further when track work is completed and new rolling stock introduced. Taking account of check-in times and airport to city centre travel, rail has closed mucb of the gap with aircraft.

Mr Santuz says that Mr Mario Schimberni, the railways special commissioner and former Montedison chairman, has been given a free hand to knock the organisation into shape. "While waiting for the railways' new structure to be settled, decisive action has to be taken to eliminate useless expenditure and modernise high traffic lines," he says.

The Minister foresees opposition to a strategy which will reduce employment and raise fares. The aim to lift fares to the European average over the next five years will help to reduce reliance on state subsidies. Last year these provided 63.6 per cent of income, compared with 50.5 per cent in 1980 and 23.7 per cent in 1972.

However, as Italy prepares to host 1990's World Cup soccer championship, there is less concern over the finances of public transport than about the quality of service. Mr Santuz is confident that visitors' travel programmes will not be wrecked hy strikes. He has hrought injunctions against train drivers and air traffic controllers to ensure the continuation of services this year. No doubt be will do his best to ensure problem-free travel for soccer fans next summer.

David Lane

ITALIAN INDUSTRY 4

John Wyles talks to Giovanni Gambardella, managing director of Ilva, the public sector company

Steel figures start to look much better

MR Giovanni Gambardella is probably the first top manager in Italy's public steel industry in a decade to approach his work with a smile on his face and a spring in his step.

Unlike his predecessors, harried by difficult market conditions, vertiginous losses and paralysing debt, Mr Gambardella has been granted the strength and good fortune of every comic book hero. "With one bound he has leaped free" of most of the constraints which made Italian steel managers of the past reflect deeply on the darker side of life.

This deliverance has been made possible because the Italian Government found the political will, and Iri, the state holding company, the financial resources to press ahead with a restructuring plan which, unlike one adopted in the early 1980s, offers Italy the prospect of an efficient and profitable public steel industry. Not, however, before a further 28 per cent cut in employment (20,000 jobs) and the expenditure of L5,113bn of public money for debt restructuring.

Transferred from the managing directorship of Ansaldo, the publicly-owned heavy engineering company in mid-1987, Mr Gambardella was joint author of the plan which has seen the liquidation of Finsider, the old state steel holding company, the closure of three plants and the sale to the private sector of four others.

The profitable parts of the old Finsider – Italsider, Deltasider and Terni Acciai – have been brought together in Ilva, a new steel company with an old Italian name (Ilva was the modern-day island of Elba) and a capital structure which offers a promising base for the future.

'I don't get emotional about a continuous casting plant'

As Ilva's managing director, Mr Gambardella's task, with the company's president, Mr Mario Lupo, is to build on this new structure. Acknowledging that the current strength of steel prices and demand "has been a big help to us," this tough unsentimental 54-year-old – "I don't get emotional about a continuous casting plant" – has his own very clear ideas of how Ilva will rise, Phoenix-like, from the ashes of Finsider.

He has changed virtually the entire top management and focused commercial responsibility on product divisions – he calls it "centralising industrial policies and decentralising economic activities." The overall operating philosophy has changed from a focus on volume production and market share to productivity and profitability.

"Our aim is to cut costs by 10 per cent, and we are now about one third of the way, having pocketed the progress we made last year and renewed the same target," says Mr Gambardella.

The 10 per cent objective is linked to an analysis which says that current steel prices in the European Community are that much higher than might have been expected under present market conditions. Should they fall by 10 per cent, then Ilva should be able to hold its profits steady, while being ready "to cut our costs still further," says Mr Gambardella.

With its plants working at near full capacity and prices high, the accounts are beginning to look very much better than those prefigured in the recovery plan. Finsider's loss last year of L600bn was L1,000bn lower than forecast at the outset, while unofficial indications are that Ilva could return a net profit of L250bn in its first year of operations.

While this should give some comfort to the European Commission, which gave the development plan its blessing after long scrutiny, Ilva's strong performance could make it virtually impossible to meet one of the financial conditions imposed by the Commission. This was that the servicing cost of Ilva's inherited debt at the first of January this year should amount to 5.5 per cent of its turnover, which was estimated this year at L7,200bn.

But the actual turnover figure looks likely to be around L10,000bn which would obviously imply that Ilva should carry a higher burden of debt that it does at the moment. This is not something the management can easily contemplate, pointing out that the average debt servicing burden in the Community's 11 other steel companies is less than 3 per cent.

Giovanni Gambardella

Though analyses vary, the key to Ilva's future lies in sorting out Europe's largest integrated plant in Taranto, at the very heel of Italy. "We found a way of working in which union power in the plant was too great and we have had to persuade the unions that we are interested in efficiency and not just production," says Mr Gambardella. The results of his tough approach were a number of stoppages last year which, together with plant renovation and fire damage, cut production by 10 per cent and forced Finsider to import products to keep its customers satisfied.

Taranto's output in the first quarter of this year was 10 per cent up on last year and the Ilva chief says he is making progress in winning changes in working practices at the plant and procedures which "cool down" disputes before they boil over into stoppages. But he firmly believes that Taranto will not really "come good" until the economy of its surrounding area is lifted out of the doldrums and activity found for that half of its 200,000 population which is not dependent on the steel plant. "It is very difficult to have an efficient plant in a depressed area," he says.

He sees the future of the troubled Bagnoli works in Naples as intimately linked with that of Taranto. Clearly, Bagnoli's steel-furnaces will have to be closed next year as requested by the Commission (a position not yet endorsed by the EC's Council of Ministers) but Mr Gambardella believes that its "first-class" rolling mill could take care of small orders and specialist products which are still run through Taranto.

'It's difficult to have an efficient plant in a depressed area'

Mr Gambardella is now giving much thought to Ilva's position in the next round of restructuring which he thinks is bound to be imposed by the market on the European steel industry. Its management, he believes, needs to change its orientation away from "fighting a war between ourselves over the next 1,000 tonnes of production" towards joining together in preparation for "the next technological revolution" which will pit the Europeans against other systems.

Steel, he says, will become "a grey matter-based business" rather than production worker-based and the European companies must prepare for this development by exchanges of shareholdings and technologies, and by joint ventures. He acknowledges that Ilva needs to make up technological ground through joint ventures and "we are ready to put in what we have." The company's priority is to find European partners but "if we don't succeed then we shall look elsewhere," says Mr Gambardella who adds: "Something must mature on this front this year and next."

Does his feel a lone voice on this theme? "Not at all. I am now aware of a strong feeling elsewhere that European steel should go in this direction."

The follow-on question – highly relevant in Italy – is will he enjoy the freedom from political interference that will enable him to pursue his strategies. "I have had no disturbance from the political world, only help. But we also suffer from the slowness of the decision-making system in Italy"

THE SOUTH

A new burst of investment

THE DEPRESSED Italian South has long been the major black mark on Italy's economic record. But a new burst of investment by big industry, much of it government-subsidised, has created a glimmer of hope, leading some observers to believe that the Mezzogiorno could be on the verge of a new period of expansion.

The new investment derives from the long-awaited application of a recent law that provides for specific and binding "planning contracts" between the state and large companies willing and able to make substantial investments involving research, advanced technology and training programmes in the South.

This has coincided with a series of economic factors that have made investment in the Mezzogiorno by big industry generally more attractive. For example, the approach of full employment in the North at a time when southern immigration northwards has declined sharply makes the South more interesting as a reservoir of skilled and unskilled manpower.

Environmental problems in the North are also subjecting industry to pressures. And space is also beginning to run out in the highly-developed Italian North.

The "planning contracts," which involve reimbursements of up to 80 per cent by the state for investments in the research field (for industrial investments the state-financed portion is 30 per cent), are just one of several types of incentives provided for in Law 64 which was passed in 1986 to replace the subsidy programme for the South but which began operating only last year.

There are also "planning accords" to cover agreements between the state and public agencies or regional governments. Financing programmes are also available for investments made by small and medium-sized industry.

Through these agreements the state can assure itself that investments of a certain scope will be realised within a specific time. For its part big industry is able to demand and receive – in black and white – legally-binding assurances that financing will be rapid. The agreements, says Mr Fulvio Milano, southern co-ordinator for Iri, the giant state industrial holding company "represent a very modern instrument for the development of a depressed area."

It has become more interesting as a manpower reservoir

The Government's main interest in these accords has been to find investments in the research and high-technology sectors that will have a multiplier effect on southern development. Along with innovation, it has been looking for projects that provide jobs, job training, agreements with local industry, and which are spread over a variety of localities. These objectives have caused some negotiations to falter. But so far they have been highly successful.

The first agreement, with Fiat, signed in April 1988, provides for total investments of L3,515bn of which L800bn is for research, and about 35 per cent of which will be state-financed. The second to sign up was Olivetti, which has promised investments of L770bn that include three new research centres. More recently, Iri negotiated its own massive programme – which Mr Milano says "involves moving at least half of our brain to the Italian South."

Texas Instruments has also signed an agreement to invest L450bn in Abruzzo and is reportedly in the midst of discussions with the Ministry of the Mezzogiorno that could involve another L1,500bn in investments. Other contracts with ENI, the Italian state energy holding company, and Efim, the state-run manufacturing conglomerate, are also in the works.

Involvement in the Italian South is not new to most of Italy's major companies. Investments in the area by Fiat, for example, go back to the early 1970s and total L5,200bn (or L7,100bn in current value). Its 29 southern factories and facilities employ 49,259 people and make it the biggest private company in the Mezzogiorno. Two of its southern factories, Cassino in Lazio, where the Tipo and the Regata are produced, and Termoli in Molise, are considered to be among the most advanced in the world.

'A notable shift' by Iri toward research and high technology

At the opening last March of the re-modernised Cassino plant, Mr Gianni Agnelli, Fiat chairman, said that the company's varied investments in the area "have demonstrated that these are the best ways to give the South real and lasting prospects of industrial growth, to stimulate entrepreneurship, and to spread the technological culture that is indispensable."

He added that the company's experience had showed that "if correctly directed and correctly employed, state aid can be enormously effective." Although the bulk of the billions involved in the Fiat five-year "planning contract" will go to cover industrial investments at Cassino and elsewhere, the highlight is the Elesis programme. This provides for 10 research centres in the vehicles, aeronautics and telecommunications sectors.

Iri, with 110,000 employees in the South, is the biggest single group there, and the new contract, signed on May 17, further strengthens that presence. Negotiated over two years, with 80 meetings in the last six months alone, during which the effect of each investment was carefully calculated, the 500-page contract signed with the Department of the Mezzogiorno calls for investments worth L1,560bn and involving 20 Iri companies, of which the Government is expected to reimburse about 70 per cent. Some L1,100bn will be spent on transferring half of the company's research laboratories. About 1,200 young graduates will be hired and trained.

The main characteristic of the programme, according to Mr Romano Prodi, Iri chairman, is "a notable shift toward research" in which the giant industrial holding company is "pouring into the South our total commitment to high technology."

Olivetti has been in the Italian South since the 1950s when an adding and calculating machine plant was built in Pozzuoli outside Naples, and today has other facilities at Marcianise, Aquila and in Bari. The five-year contract signed with the Mezzogiorno Ministry in July 1988 divides investment into five categories: industrial development and reconversion; the establishment of three research centres (at Pozzuoli, Bari and Marcianise); research projects; training; and services. About 70 per cent of the total investment, equal to L567bn, is to be refunded.

"We feel that the law offers a series of real opportunities for investment in an area with a fragile infrastructure," says Mr Giorgio Panattoni, an Olivetti engineer. But, he points out, Olivetti's investments in electronic connections, terminals and project modules will also help the South.

Sari Gilbert

FUTURE OF CAPITALISM

The fear of being left behind

ITALIAN industrialists closely resemble that highly British, and now largely extinct, breed of entrepreneur, the small, independent off-course bookmaker. For both, the pleasures of current success are nearly ruined by the pains of anticipated failure. Today's winnings are merely a mortgage on tomorrow's losses.

This is not to deny that Italian industry and government have to solve some severe structural problems to be more certain of prospering in the global markets of the 1990s. But there are occasions when a gathering of industrialists begins to resemble the darkest scene from a Russian novel, with pessimism rampant and proportion in scarce supply.

One such was a conference a fortnight ago organised by the young businessmen's section of Confindustria in the pleasurable resort of Santa Margherita Ligure. The theme was the future of Italian capitalism and almost all of the contributions would have prompted the wise investor to put a sell order on his holdings in Italy Inc.

For Mr Carlo De Benedetti, the financier-president of Olivetti, there was no real capitalism and no real market in Italy. Senator Guido Rossi saw the country in danger of second division status in the European Community, Professor Giancarlo Lombardi drew a parallel between the present and the 16th century and warned that Italy again faced being "marginalised and made the vassal of other systems."

There is no reason to doubt that these and other eminent participants believed every word they were uttering, although it also seems likely that they erred on the side of gloom, because so much of their message was intended to galvanise the politicians.

Barely a word was spoken about the strengths of Italian capitalism which can be summed up as the following:

1. A professionally managed and very financially strong collection of large companies whose financial assets exceed gross debt.
2. A robust and highly entrepreneurial small business sector which is unusually (in Europe) export-oriented, flexible and hard-working.
3. A collaborative trade union movement disposed to accept market disciplines rather than challenge them in pursuit of narrow sectoral goals.
4. Growing success, not only in applying technology acquired from elsewhere, but also in developing home-produced technology in areas such as new materials and engineering.
5. A human factor which is intelligent, imaginative, creative and opportunistic.

The strength of these assets is both a reflection and an explanation of the enormous strides made by Italian industry in the 1980s.

One further explanatory element which was completely ignored in Santa Margherita is the role which the much maligned Italian political class has played in the renaissance of Italian industry and can still play in helping it to confront the challenges of the 1990s.

It is easily forgotten that Italian governments devised financial aid packages and taxation policies which were crucial in stimulating investment and restructuring plans which brought major companies such as Fiat back from the brink of collapse in the late 1970s.

It was also government action which forced the trade union movement to accept changes in wage indexation which helped bring inflation down from 22 to 5 per cent between 1980 and 1987. Finally, governments have done much to restructure and reform public sector companies by nominating managers of proven quality, vision and courage.

At Santa Margherita, Mr De Benedetti offered the darkest vision to put into the balance against past achievements and current strengths. Structurally, he lamented the fact that Italy's medium and large companies of international significance pretty much remained those of 10 years ago.

Fortune Magazine's list of the top 500 non-American companies included only 10 Italian groups against 41 French, 54 German and 74 British. The problem which most preoccupied Mr De Benedetti and also Mr Antonio D'Amato, the president of Confindustria's young business section, is the fact that Italy's small businesses – born at the rate of 100 a working day for the last 15 years – fail to grow into medium and large companies.

Faced with the European single market, Mr De Benedetti said, there were only two choices: either to achieve quickly a large dimension or "to finish at the margins of the market or be acquired by other companies." Italian small business seemed intrinsically unable to develop and to create structures of a growing dimension. This was a source of great systemic weakness for Italy.

They erred on the side of gloom to galvanise the politicians

But the Olivetti president also threw other problems into the scales: the lack of an adequate domestic financial market, partly because savings were being "wasted" in financing Italy's huge budget deficits and public debt and also because the stock market had failed to reform itself; an insufficient degree of internationalisation of activities and also of inward foreign investment; an inadequate research and development effort with per capita expenditure of $165 compared with an average $445 in five major industrialised countries; and finally, a gap in comprehension of the difficulties and in a capacity to respond in them between the corporate and political systems.

This is a powerful critique which generates a sober reflection about the prospects for Italian capitalism. The single most important factor giving rise to pessimism about the outlook is that unlike a decade ago, the Italian economy now needs a swifter and more decisive response from the political system to help reduce its structural disadvantages.

Thus, more effective remedial action on the budget deficit and debt is needed to reduce real interest rates and the danger of recurrent financial crises after all restrictions on the movement of capital are lifted next year.

Urgent action is needed to streamline public administration and the quality of public services whose present inefficiencies weigh much more heavily on small businesses than on large.

The state also needs to leave more room for the private sector by abandoning outdated systems of price controls and regulation of markets. A more determined policy of privatisation and withdrawal from its presently enormous range of industrial activities would provide resources for public debt reduction. A body of regulation which imposes more transparency and equal terms of competition is also required. And swift passage of the anti-trust bill – already approved by the Senate – was repeatedly demanded at Santa Margherita.

It is not easy to conclude that industry's strengths in Italy are not more than offset by its structural handicaps. But Mr De Benedetti and others did acknowledge a growing awareness among the political class of the formidable responsibilities which it needs to fulfil with much greater urgency.

The question remains open as to whether much political movement is possible at all without the major institutional reforms which Confindustria is insistently demanding. The probability is that sufficient action will in the end be taken to avoid the worst fears that Italy is going to be left behind in the 1990s. But it will be a close-run thing.

John Wyles

The Italtel link-up with AT&T: now will the phones work?

Key telecoms alliance offers much

THE SIGNING earlier this month of a "global alliance" between American Telephone & Telegraph (AT&T) and Italtel, the Italian state-owned telecommunications equipment maker, is undoubtedly the most significant event of the year, if not the decade, in the Italian telecoms sector.

The US-Italian agreement, which comes after years of Italian dithering, political infighting and abortive talks with a possible domestic partner, is pregnant with promise both for Italtel and for the US telecoms giant, whose $35.2bn of 1988 sales make it 32 times bigger than its new Italian partner.

For the Italians the accord with AT&T means that Italtel, its parent company Stet and its sister company SIP, the telephone utility, can finally move forward with a cohesive strategy and the injection of new technologies and products that are needed to modernise the country's embarrassingly poor-quality telephone system. Aside from the $185m of net

Robert Allen, chairman, AT&T

investment that AT&T is putting into the Italian venture, Italtel will also have access to the famous Bell Laboratories.

Moreover, Italtel will be forming a joint venture company with AT&T to market a "common catalogue" of public telecoms products. Both sides say they are willing to include third parties in this joint venture.

For AT&T, which has a distinctly chequered record of trying to establish a bridgehead in the European telecoms market, the Italian deal marks a turning point. It means that AT&T stands to win a sizeable portion of the $28bn of equipment contracts tied to Italy's five-year plan to modernise its telephone system, known as "Piano Europa." By co-operating with Italtel, the American telecoms giant also hopes to work its way toward winning new business in Eastern Europe and in Third World markets where the Italians already have commercial ties.

Mr Robert Allen, AT&T's phlegmatic chairman and chief executive, said in a recent interview in Rome that the link-up with Italtel would "bring the new and advanced products upon which success in 1992 depends." Slightly more grandly, Mr Allen also said the accord "has the potential of changing the balance of competitive forces in Europe."

The deal itself comes after years of uncertainty in Italy. Between 1985 and 1987 Stet negotiated with the Fiat group to form Telit, which would have been a joint venture telecoms company with Fiat's Telettra subsidiary. That project collapsed in November 1987 when Fiat pulled out, alleging political interference. Between the end of 1987 and February of this year four foreign telecoms companies competed to win the hand of STET and Italtel; these were Alcatel of France, Ericsson of Sweden, Siemens of West Germany and AT&T.

The Italtel/AT&T accord is being cemented by a swap of shareholdings that will see the US group acquiring 20 per cent of Italtel and Stet in turn taking 20 per cent of AT&T/Network Systems International (AT&T-NSI), the Dutch-based unit that started life originally as a joint venture between AT&T and Philips. AT&T recently increased its stake in the Dutch unit to 85 per cent and this will drop to 65 per cent as a result of the Italian deal. The Dutch unit had $600m of 1988 sales and operates primarily in the Netherlands and Belgium.

Mr Allen, when asked whether AT&T might move its European base of operations from the Netherlands to Italy, said there was no immediate plan, but added that "clearly that is an option for us to consider in the future." He also claimed that the new accord would make Italy "the strategic centre of European telecommunications."

Whether Italy ever becomes a strategic centre for European telecoms is unclear. But it is is clear that the Italians are in need of some help from a foreign partner.

There are two principal reasons. Firstly, the annual sales of Italtel, which last year totalled Lire 1,700bn ($1.2bn), are simply too small to make Italtel much of a contender against the giants of the global telecoms market. Less than 10 per cent of Italtel's sales are outside Italy, where more than two-thirds of revenues come from SIP, the telephone company. Mr Allen promised that the new alliance would bring new export business for Italtel.

The second reason why the Italians need help is that Italtel requires new technologies if it is to play a role in the country's upgrading of its phone system. One example of the AT&T technology that will help Italtel is the advanced software that maximises the capabilities of installed telecoms equipment and goes into the development of "intelligent networks." Another is in helping Italtel's private switching side.

Making phone calls in Italy is a nightmare for anyone who has just stepped off a plane from London, New York or Frankfurt. Rarely is it possible to make a connection between Italian cities (and frequently inside one city) without repeated dialling. Looked at in national terms, subscriber density in Italy is 33 telephones for every 100 inhabitants; this compares with a European average of nearly 40 per 100.

The planned co-operation between Italtel and AT&T will include research and development, production, purchase of common components, sales, installation and servicing of products in areas including public switching, transmission, operation support systems and private telecoms.

On the public switching side AT&T has promised to help Italtel to improve its already successful Linea UT system. The Italians are keen to explore the prospect of selling the Linea UT in the North American market, where it would be considered a small-scale exchange. Mr Allen, at the Rome press conference that unveiled the accord, made all the right noises about how AT&T is now evaluating the possibility of marketing a modified version of the Linea UT in the US, but few analysts think it probable that there will be much US interest in the Italtel system.

A more likely area of growth for the Linea UT is in Third World markets in places such as Africa and Asia, where the system may be integrated into newly developing telecoms infrastructures. This, in turn, could help AT&T to expand its own sales, by way of its new joint venture sales unit with Italtel.

Aside from the Italtel/AT&T alliance, the rest of the Italian market consists of foreign competitors that continue to battle

Big brother gets a foot in the European door ahead of 1992

for sales; the foremost foreigners are Alcatel, Siemens and Ericsson. Fiat's Telettra telecoms unit continues to flourish, meanwhile, and has been especially successful in striking up relationships in the Spanish market.

The last time AT&T came to Rome to announce a "global alliance" was of course in 1983 when it paid $260m to buy a (then) 25 per cent stake in Olivetti, the office automation group. That alliance is now fading and AT&T is scaling back its purchases of Olivetti personal computers as it considers alternative suppliers such as Intel of California.

Until very recently, it was thought that Olivetti might play a role in the Italtel/AT&T accord by co-operating on the private switching side. But Mr Allen explained that while Olivetti had been "supportive" of the Italtel/AT&T deal it would not have a role in the new venture.

Now that all of the negotiations are out of the way, it will be up to the US telecoms giant and its Italian partner to set about making their co-operation accord pay off. No-one expects to see immediate results in the workings of the Italian phone system; that will be a gradual process, likely to hit as many delays as any venture involving the Italian state. The first concrete results may come as AT&T and Italtel begin marketing joint products to third countries.

All in all, the accord appears to have satisfied both parties; AT&T gets its foot in the door of the European market ahead of the coming unification measures of 1992 and the Italians get a technologically brilliant big brother, hope to see sales rise substantially at Italtel and may even finally get their telephones to work properly.

Alan Friedman

David Lane on the power plant industry's prospects

Gas turbines back in fashion

WHEN the Italian Government approved an emergency electricity generating programme at the end of last year, it gave a boost to the country's two gas turbine makers. The programme consists of re-powering 13 320MW units at four existing power stations, using 100MW gas turbines, the installation of two gas turbine units in the Molise region and construction of five 300MW units of combined cycle plant.

Tackling expected capacity shortages and the threat of black-outs which looms for the 1990s, state electricity corporation ENEL is also engaged in converting the Montalto di Castro nuclear station to multi-fuel conventional operation. That means more gas turbines.

ENEL plans to install 35 gas turbine units, so Nuovo Pignone's Turbotecnica, a subsidiary of the ENI state hydrocarbons holding corporation, and Fiat Aviazione's gas turbine division look set to share work worth about L3,000bn.

ENEL says the two companies are "traditional suppliers" set to receive equal shares when contracts are awarded. The business will soon start to flow. "The corporation's board has approved purchases from the two suppliers. Technical evaluation has been completed and talks are under way on prices," says Mr Carlo Felice Vivani, ENEL chief engineer for conventional power station construction.

The gas turbine contracts are not being awarded by competitive tender, so ENEL has the delicate task of negotiating prices on the basis of international comparisons, particularly on information supplied by other European electricity corporations. Wrangling over how much should be paid makes the process lengthier than competitive bidding.

However, ENEL should sign some contracts before factories shut for the summer break. "We expect to close negotiations on the eight gas turbines for Montalto di Castro. Firm orders could be placed for up to 20 units," says Mr Vivani.

Fiat Aviazione says that growing interest in gas turbines for electricity generation is due to three factors:

- the efficiency of these plants, especially combined cycle applications, makes them attractive because of lower energy production costs;
- gas turbine based power plants minimise carbon dioxide, sulphur and solid particle emission. And they are visually and acoustically less damaging to the environment;
- gas turbine plant offers low installation costs, short delivery times, high reliability and operating flexibility.

These advantages are gaining supporters not only at home. Fiat Aviazione reports that, after the fall in orders between 1982 and 1986, the world market for gas turbines is recovering and prospects are good. "In recent years there has been a shift from the traditional markets like the Middle East and Africa to developed countries, with a significant increase in the US," says the company.

The conditions that are lifting spirits at the Turin company are boosting the order book and profit expectations at Florence-based Turbotecnica. The state-owned company describes the rethinking of policies on electricity generation which occurred last year as important.

The crisis of nuclear power, the considerable problems associated with the environmental impact of coal and the large quantities of natural gas which have become available mean more work for Turbotecnica. "The use of gas turbines in combined cycle gas-steam plant, for re-powering and for co-generation of heat and electricity is viewed much more favourably now than in the past," says the company.

During the past 12 years Turbotecnica has installed 7,000MW of gas turbine generating plant, winning fourth ranking in the world production league. Its annual capacity is 70 small to medium-sized units and eight large units, though the company says this could be increased without significant investment. With ENEL's orders on the way and world market conditions looking favourable, production bottlenecks must be a concern.

The ABB-Ansaldo deal creates a leading world manufacturer of heavy electrical plant

Exports absorb about 35 per cent of Turbotecnica's output and during the past two years it has won orders for several major projects outside Italy. Recently, it won a L100bn contract from Morocco's Office Netionale de l'Electricite to supply gas turbines for a 100MW power station.

Emphasis on gas turbines has not, however, eclipsed Italy's makers of steam generating plant. Indeed Franco Tosi and state-owned Ansaldo, part of the IRI holding corporation, made news in January with an agreement involving Asea Brown Boveri (ABB). The global process of rationalisation and concentration in heavy electrical plant, encouraged by continuing surplus capacity, now embraces the Italian industry.

Three companies have been established by Ansaldo's deal with ABB. Ansaldo ABB Componenti, a company controlled by Ansaldo and absorbing the boiler and turbine capacity of Franco Tosi, has responsibility for producing boilers and turbines. Transformer manufacture is concentrated in ABB Ansaldo Trasformatori, controlled by ABB.

Ansaldo GIE, controlled by Ansaldo, becomes Italy's only company for engineering and constructing power stations.

Significant arees are excluded from the partnership. Ansaldo and ABB stay separate on engineering, production and sales of electrical motors, alternators, nuclear engineering and power plant electronic systems. Another piece missing from the rationalisation jigsaw is gas turbines.

However, the agreement establishes e more competitive national industry by bringing together the two main protagonists, Ansaldo and Franco Tosi. It seals an alliance between Italian industry and a major international group, and initiates a joint high technology programme between Ansaldo and ABB. It creates one of the world's biggest manufacturers of heavy electrical plant. On historic data the partnership holds e world share of about 9 per cent in boilers and about 7 per cent in steam turbines.

The critical circumstances which underlie the Ansaldo-ABB egreement seem likely to continue. Genoa-based Ansaldo draws attention to "a buyers' market which strongly squeezes ecoonomic margins of all competitors."

Recent events in China put a question-mark over last year's order for two 350MW units for the Ligang power station from Ansaldo. And little relief is offered by the home market where, last year, ENEL cancelled a contract for a nuclear station at Trino Vercellese and halted nuclear construction work at Montalto di Castro.

Italian order prospects for steam turbine generating plant are gloomy for the next couple of years. Construction of the Brindisi Sud station is at an advanced stage. Aboot L1,000bn of boiler and turbine work for Montalto di Castro has been awarded and all major plant orders have been completed for the stations at Tavazzano, Fiume Santo and Gioia Tauro.

"No other large projects are near to implementation. Siting new stations in Sicily and Sardinia is proceeding slowly and no plant will be ordered for combined cycle stations until planning enthorisations are obtained," says Mr Vivani. As for the offshore station announced last year, an idea which has raised a few eyebrows, its detailed feasibility phase will be completed in November. Apprehensions must be overcome before orders are placed.

Why margins are coming under pressure

Clothing loses a little of its lustre

ITALY, WITH Lire 5,707bn ($4bn) of 1988 exports, remains the leading clothing exporter among the industrialised nations that include Europe, the US and Japan. In global terms Italy is the second biggest exporter in the world after Hong Kong.

However, the Italian clothing industry is facing a difficult patch as it struggles to keep pace with new and aggressive competition from West Germany and Spain in Europe and from lower-cost producers in places such as Turkey and south-east Asia.

The weakness of the US dollar over the past couple of years has hit Italian sales in North America. Italian clothing imports are rising faster than exports and increasing labour costs are cutting margins for Italian companies. The result of these trends is that the Italian clothing industry is under pressure, as are the related textile, footwear and knitwear sectors. Textile producers in particular – which, including raw materials, furs, yarns, threads and fabrics, accounted for L8,835bn of exports in 1988 – are finding that West Germany, the world's leading exporter of textiles, is forging ahead.

All of this is rather disconcerting for the Italians, who have managed since the 1960s to emerge as a powerful force in the European and world clothing, textile, knitwear and footwear industries. The famous Italian flair for design, the superior quality of Italian fabrics such as silks from Como and wool from Biella, substantial investment in factory automation and the enormous financial backing given to designers by manufacturing firms have all helped Italy to become (in overall terms) the largest force in the Europe Community, providing a third of both output and employment. What is now becoming clear is that fresh competition from abroad will make it necessary for the Italians to run just in order to stand still.

Almost all fashion houses are signing licensing deals

Mr Adriano Benvenuto, secretary-general of the Associazione Industriali Abbigliamento, the apparel makers' association, laments "our present situation, where we see modest growth in domestic consumption, a rise in imports that is taking business away from Italian companies, higher labour and financial costs and very aggressive competition from other countries." Mr Benvenuto points out that the first few months of 1989 show already how much faster imports are growing than are exports.

The state of Italian clothing and textiles companies varies depending on the market segment. Mass casual clothing producer-retailers such as Benetton and Stefanel are lowering their expectations in North America and gambling heavily on fresh growth from Eastern Europe and south-east Asia.

ITALY'S CLOTHING INDUSTRY*
(Figures in billions of Lire)

Year	1985	1986	1987	1988
Total sales†	12,300	13,250	13,625	13,930
Exports	4,949	5,418	5,630	5,707
Imports	1,014	1,285	1,526	1,741
Trade surplus	3,935	4,213	4,104	3,966
Workforce†	150,969	138,911	135,300	133,800

*These figures do not include textiles, knitwear and footwear. †Refers only to companies with 20 or more employees. Source: Italian Apparel Association

Top fashion names such as Armani and Versace are piling into joint venture and franchising deals in Japan. Manufacturers such as Marzotto and GFT are beginning to follow a strategy of acquiring production facilities in West Germany and the US in order to both hedge currency fluctuation risk and provide a "local" presence and service. And almost all Italian fashion houses are embarked upon a seemingly undiscriminating policy of signing licensing deals for products ranging from sunglasses to kitchen tiles.

The Benetton story is perhaps the best known outside Italy. The colourful company, founded 24 years ago by Mr Luciano Benetton, has now grown to nearly $1.1bn of annual sales, with a network of 5,000 shops in 79 countries. But sales in North America came under strain last year as the overall market contracted, and Benetton has had particular problems with its US strategy.

Some of the lustre has worn off the Benetton image, the weak dollar in 1988 made Benetton prices somewhat unattractive and the company's strategy of clustering outlets has both over-saturated some areas and led to complaints, including scattered lawsuits, from soma Benetton shop owners.

Mr Benetton says steps are being taken to revamp the US business, which features 700 shops. The US management is being strengthened, the retail network is being reorganised with a focus on larger shops and the group is creating a family of brands that go beyond the Benetton name to include the "0-12" children's line and the Sisley sports line.

Benetton has just become the first Italian company to sell equity to US investors and has raised more than $100m. This has created a New York Stock Exchange listing, has enlarged the float of Benetton stock that is publicly traded from 12.5 to 20 per cent and has instilled greater discipline at the company as a result of having to conform to the requirements of the Securities and Exchange Commission (SEC).

In addition, Benetton is aiming to raise more equity capital in Japan and to expand significantly in south-east Asia.

Stefanel, which with 1988 sales of L260bn is much smaller than Benetton, is still expanding aggressively and now has a total of 800 shops, of which some 600 are in Italy. In the US the company has only 18 outlets, compared with an earlier target of between 40 and 60 stores by the end of 1988. Stefanel is also expanding in Japan and succeeded in obtaining a deal in the Soviet Union before Benetton.

Marzotto, Italy's biggest textile and clothing manufacturer, has grown dramatically as a result of its takeover of Lanerossi, a yarn and clothing business that was acquired from an Italian state group in October 1987. Marzotto had turnover of L1,454bn in 1988 and is working to increase its export sales, which at present represent less than 30 per cent of total revenues.

The company, which produces cloth for well-known Italian names such as Ferre in fashion and Zucchi in the sheet and pillow-case sector, is one of the best-run in Italy's textile sector. None the less, Marzotto is aware of the need to branch out around Europe in order to keep pace with foreign competitors.

The same can be said for GFT, the equally well-run Turin-based clothing producer that manufactures and distributes for names such as Armani, Valentino, Pierre Cardin and Christian Dior. Mr Marco Rivetti, the GFT chairman and managing director, is also hoping to increase production in West Germany and the US to spread his currency risk and better service internatinnal fashion names.

Foreign competition means Italy must run in order to stand still

The big names in Milan fashion may feel some resentment at the renewal of interest in Paris that has come about as a result of aggressive management at Yves St Laurent and LVMH or the rise of designers such as Christian Lacroix.

But Giorgio Armani, still the king of Italian fashion, is flourishing, even negotiating the purchase of a minority stake in SIM, an Italian jeans maker that produces some Armani casual wear. Armani, like other big Milanese designers including Versace and Krizia, is launching into a major expansion programme in Japan, where each of the big names has now got a co-operation accord with Japanese houses such as Seibu and Kashiyama.

The problems faced by the Italian clothing and textile sector therefore vary greatly and the top-quality end of the market is clearly less susceptible to the kinds of competitive forces that have led many to slash margins. The return of a stronger dollar is already helping the Italians.

In general terms the outlook is for ever keener international competition. The undisputed superiority of Italian fabrics, style and workmanship in the clothing business may not be all that is needed to keep ahead in the 1990s.

Alan Friedman

David Lane looks at the food sector

Foreigners gulp down some tasty tidbits

"CINZANO is happy to have International Distillers and Vintners as a major shareholder," says Count Alberto Marone Cinzano, chairman of the well-known Turin drinks company. He describes the results nf the link with the British group, which took a 25 per cent stake in Cinzano five years ago, as very positive.

Thongh Cinzano did not have 1992 in mind when it sought a partner, the company was aware of the need for reinforcement in order to compete in increasingly global markets. "We considered that the battle would be won or lost on distribution and that partnership with a group strong in distribution was the best strategy," explains the count.

As well as heading Cinzano, he has been chairman of Federalimentare, Italy's association of food and drink processing companies since last summer. His experience of working closely and harmoniously with a foreign concern therefore gives him insights on which he can draw to reassure the association members.

Several major Italian food companies have passed into foreign ownership over recent years, the biggest deal being sealed last year when the Buitoni pasta, confectionery and nlive oil group moved from Carlo De Benedetti's CIR Group to Nestlé. Foreigners, both European and from further afield, continne to sniff around the industry.

Count Marone Cinzano attributes interest to four factors. First, the industry is highly fragmented, the 40,000 companies having an average size of about 10 employees. Second, Italy is now rated low on political and economic risk. Third, foreign companies are gearing up for 1992 and looking for expansion nppnrtnnities. Fourth is a growing interest in the Mediterranean diet and in traditional Italian products.

"Outright purchase or acquisition of equity stakes will not, however, be the only operations changing the shape of the food industry. I believe that many medium and small Italian firms will find marketing and commercial joint ventures and partnerships with similar-sized foreign companies a suitable strategy for meeting coming challenges," says Count Marone Cinzano.

With attention focused on the future, current performance risks passing unnoticed. Yet this is an important factor behind foreign interest in Italian food processing which, the count notes, is the country's third largest industry after mechanical engineering and textiles. Its added value last year amounted to L26,500bn, an increase of 5.4 per cent on 1987.

Between 1980 and 1988 food processing output grew by 17.5 per cent, one of the biggest increases in Italian industry. Over the same period mannfacturing industry production rose by 8.3 per cent overall.

Reflecting greater consumer concern for healthy diet, non-alcoholic beverages and mineral water have been among the most dynamic sectors. Last year production increased by 9.9 and 4.5 per cent respectively. Similar increases are forecast for this year and next.

Bnt changing life-styles means that frozen food is doing even better. Production rose by 13.5 per cent in 1988 and is expected to increase by a further 6.9 per cent this year and 5.9 per cent in 1990. Shifts in consumer preference have also boosted production of tinned and bottled vegetables, up by 6.6 per cent last year. Cakes and confectionery moved strongly ahead as well.

In contrast, some sectors slipped back. Italian sugar prodnction fell by 13.9 per cent in 1988, thongh it is expected to recover by 2.6 per cent this year and 3.2 per cent in 1990. Edible oil production's 3.7 per cent fall ehould be countered by increases of 7.7 per cent this year and 3.3 per cent in 1990.

Fedaralimentare forecasts an overall increase in output of 3.0 per cent next year, followed by 2.2 per cent in 1990. "Rationalisation and expectations of a continuation of the present expansionary phase underlie a scenario which is more dynamic than for industry as a whole," the association says.

Italy's food procaeeing industry continnes to invest beavily. Last year the pasta sector spent L175bn on new plant, a 9.4 per cent increase on 1987. Investment amounted to L183bn in meat processing, L260bn in vegetable processing, L260bn in mineral water and L530bn in cakes and confectionery. And the pace seems unlikely to slacken. Federalimentare expects investment to increase by 8.4 per cent this year and 6.8 per cent in 1990.

"We have certainly not reached investment saturation. Greater spending is indispensable for the industry to be ready fnr 1992," says Count Marnne Cinzann. Prncees improvements are needed to reach the higher levels of efficiency which the industry considers necessary to compete on level terms with other European food processors.

Inevitably this will mean a further decline in emplnyment. During 1988 the number of jobs in Italian food processing fell hy 0.9 per cent, to about 382,000. The workforce is expected to drop by 1 per cent both this year and next.

Increased efficiency may explain part of the improvement in the trade balance in processed foodstuffs, the deficit being cut last year to L422bn from 1987's figure of L960bn. Federalimentare points to an increase of 11.5 per cent in exports. The count is not satisfied, however, and wants to see much greater effort towards exporting. "Italian companies must repeat their domestic success abroad whare there is considerable demand for genuine Italian food products," he says.

The leaner, more automated and more efficient state of the industry may also explain why nntsiders want to become insiders in one of Europe's four largest markets.

Italy is attractive, not least to the giants. BSN-Gervais Danone's recent acquisition of Nabisco's European interests included Saiwa, a leading Italian biscuit company. Earlier this year the French group and its IFIL Agnelli partner took a 45 per cent stake in Star, a company with interests in tea, canned vegetables and meats Last year Kraft, which controls major brands like Invernizzi and Simmenthal, came close to swallowing the Parmalat dairy group. Heinz is a force with brands like Plasmnn, Dieterba and Sperlari. And Unilever is a leader in ice cream, in frozen food with Findus and in margarine and edible oils.

The beer business has also gone foreign, the most recent deal being earlier this month when Canada's Labatt bought control of the Moretti. There are no sacred national preserves as British intruders have shnwn hy aiming for wine, not only IDV in Cinzano hut Allied-Lyons in Antinori and United Wine in Ricasoli.

Notwithstanding mnch talk of the strategic significance of the food processing industry, Italian husiness has not created a domestic giant able to match the ontsiders. It missed an opportunity in spring 1985 when privatisation of the IRI state holding corporation's SME food gronp to Buitoni, then owned by Carln De Benedetti, fell through.

What are the odds that, instead of forming the core of an all-Italian business, SME's well-known names like Motta and Alemagna cakes, confectionery and ice cream, Bertolli olive oil and Pavesi biscuits will wind np in the hands of brand managers at the headqnarters of food mammoths ontside Italy?

RETAILING

Land of 1m shops

WHEN IT comes to shopping in the ancient Trastevere region nf Rome, tradition prevails. Attracted by the possibility of easy credit, and reluctant to give up the repartee and familiarity of daily small-store visits, many housewives snub the area's single supermarket and stick to the open-air market or their friendly neighbourhood merchants.

At the local grocery icing sugar is still sold unpackaged. At the neighbourhood bakery, it is still possible to buy 100 grams of beer yeast or bicarbonate of soda wrapped up in a scrap of newspeper. Many housewives are loyal to the local mozzarella shop and will walk several blocks to purchase fresh pasta from a tiny specialist store.

Over the last two decades, however, many things have changed in this Italian neighbourhood as in others. Licensing rules have been eased. Salt is no longer sold by state-licensed tobacconists' shops, food stores can carry toilet paper, detergents, razors and shampoo. And greengrocers can sell oil, wine, eggs and canned goods.

It is no longer possible to buy one cigarette or envelope. Several food stores have gone out of business, being replaced in one case by a restaurant, in another by a jewellery store, in a third by a boutique. But they have not changed enough. For if the number of food shops in Italy has been declining steadily – from 530,000 in 1981 to 315,768 in 1987 – non-food stores have continued to proliferate. Last year Italy was the only European country where the number of stores grew. The total, including the country's 110,377 licensed pedlars, is 972,711 shops.

Experts agree that the current ratio of stores per inhabitant – one for every 67 Italians, or 13 families – is inappropriate for a modern industrial nation and a real hurden for consumers. It also has left Italy's would-be large retail distributors highly vulnerable to competition from the rest of Europe after the establishment of the unified market in 1992.

Mr Nicolo Nefri, president of Rinascente, the department store chain now owned by IFIL, a subsidiary of the Fiat automobile company, says foreign competitors will face all the same difficulties that have kept national distributors from being able to expand at the desired rate. Nevertheless, he says, in the run-up to 1993, "large retail companies are concentrating their efforts on opening the biggest possible number of outlets in order to leave little space to the new competitors."

Rinascente and Standa – the chain bought last year from the Montedison Chemical company by Mr Silvio Berlusconi, the TV and real estate magnate, for L769bn – plan new investment, as do smaller chains. But the difficulty in getting licences may mean moch expansion will come from takeovers, like Rinascente's recent purchase of a majority stake in the Sicilian chain, Sigros.

In addition, even the biggest groups in Italy are small hy European standards. Even if Standa and Rinascente were to merge, their joint turnover of L6,000bn a year would not put them in the top 10. The Belgian company, Delhalze, with annual sales of L7,000bn is in 10tb place, while Carrefour-France, the biggest in Europe, boasts an annual turnover of L13,500bn.

Italy's sector dedicated to large selling spaces – supermarkets, hypermarkets and department stores – is severely underdeveloped and represents "a significant deformation of the supply-side of our trade system," says Mr Aldo Spranzi, director of the Centre for Trade Studies of Milan's Bocconi University. Particularly in the centre and south of the country, relatively few have got into the habit of once-a-week shopping expeditions, preferring the smaller, daily excursion.

More serious is the fact that law 426, Italy's governing law for commerce, is anachronistic and excessively restrictive, says Mr Spranzi. Another problem is that Italy's city and regional governments have been hostile to large-size retail distribution, what the Italians call *la grande distribuzione*. Pressure from the powerful Confcommercio merchants' association, which represents thousands of small, family-run shops that fear larger units will steal their customers, has been to blame.

Even the biggest groups are small by European standards

The difficulties in obtaining building and operating licences from local anthorities have left Italy far behind the rest of its neighbours. Legal restrictions mean that many of the snpermarkets which do exist are below optimum size and not at the best possible site.

The last available figures show that at the end of 1987 there were only 2,561 supermarkets and 49 hypermarkets in Italy. By comparison, in France, there were 6,628 supermarkets (stores with between 400 and 2,500 sq metres of selling space) numbered and 639 hypermarkets (those with over 2,500 sq metres). In Rome, the Italian capital, the situation is worse than in nnrthern cities such as Milan. Supermarkets in Rome cover only 149,000 sq metres compared with 208,000 sq metres in Milan.

According to a study by the Sincron Research Institute and the Lazio association of consumer co-operatives, to modernise successfully by 1992, 170 retail stores of an average area of 1,000 sq metres and 180 minimarkets (between 200 and 400 sq metres) will have to be built in the next three years. "In other words," says Mr Gianni Milena, the association's president, "we've got to begin a phase of catching up on the delays that have accumulated over the years; and we'll have to push a bit more than others if we don't want to find ourselves unprepared for foreign competition."

"The backwardness of our country is extremely serious," says Mr Nicolo Pellizzari, managing director of Standa. "The law must be changed totally. There is an excess of regulations which has had the effect of maximising inefficiency. The state dictates trade policy rather than leaving it to the free competition of the market," he said in a recent interview with a business magazine.

Figures snpplied hy the National Statistics Institute show that in 1987 Italians spent L278,555bn in shops, L131,555bn for food and drinks and L147,000bn for non-food items. But overall, large retail units handled less than 10 per cent of those sales, compared with 58 per cent in Great Britain, 47 per cent in West Germany, 64 per cent in Sweden and 76 per cent in Belgium.

Foreign companies have startad casting their nets insida Italian borders. A French businessman, Mr Robert Arland of Hyperecord, has earmarked L34bn for a hypermarket to open next year at Portogruaro, near Pordenone. Ikea, the Swedish chain of do-it-yourself furniture kits, has opened a first outlet at Cinisello Balsamo outside Milan. Tbe Frencb group, Auchau, has linked with the Conti chain of supermarkets in Turin. Dutch-owned cash-and-carry leader Metro is expanding after years of immobility.

Italian retailers ere also pressing ahead with plans for expansion. Co-op, the main co-operative outlet with about 1,400 stores, has bought up local chains like Stella Market in Lazio and Full in the Veneto region and is reorganising its sales network. Standa (261 outlets plus 218 affiliates) has increased sales through synergies with Mr Berlusconi's TV advertising company. Rinascente (14 department stores, 33 Croff housewares, 56 SMA eupermarkets, 196 Upim Prix Unis, eight Bricolage DIY stores, and eight Citta Mercato hypermarkets and 160 affiliates) is investing in new technologies like bar code pricing and electronic points of sale.

Sari Gilbert

The outlook for an important - but saturated - market

Shadow over white goods

THE EUROPEAN home appliance market has seen a significant trend toward concentration by way of mergers and takeovers over the past year, but the remarkable feature of the European market remains the dominant role of Italy as a leading producer and net exporter in the Community. Estimates vary, but it is generally accepted that Italy last year accounted for more than a third of Europe's white goods production, while consumer demand in Italy amounted to just 14 per cent of the European total.

Much of the world industry's attention has focused on the two global leaders – Whirlpool-Philips and Electrolux. In the latter's case it was the 1984 acquisition of Zanussi, the biggest Italian producer, that helped catapult the Swedish concern to the top of the European market. In the Italian market, meanwhile, last year's takeover by the Merloni group of Indesit pushed Merloni into the fourth-ranking European spot, with a 10 per cent share of the European market total, after Electrolux, Whirlpool and Bosch-Siemens.

The problem at present is that despite the greater concentration which now places 80 per cent of the market in the hands of the top 10 producers (against a 45 per cent share for the top 10 at the start of the 1980s) much of the European market is saturated, overcapacity in Europe is estimated at around 1m units a year and consumer demand is being dampened in key markets such as the UK by inflation and higher interest rates.

In Italy overcapacity stands at around 20 per cent, which means that Electrolux-Zanussi and Merloni are almost in a neck-and-neck race for the top sales spot, with each company round the 20 per cent mark and Zanussi slightly ahead.

Zanussi last year produced 4.3m units against Merloni's 3.1m total, but a substantial portion of the former's output was for its Electrolux parent. Thus, some 71 per cent of Zanussi's output was exported from Italy, while for Merloni the figure was closer to 55 per cent.

With the powerful financial backing of its Swedish parent, Zanussi has since 1985 embarked upon a major programme of capital investment


Vittorio Merloni

in factory automation, a reduction in the workforce and a profitable diversification into the components and catering businesses, which in 1988 accounted for about a third of Zanussi turnover of Lire 2,083bn.

Merloni has also been investing in improving its productivity, but is now facing a period of at least two years of consolidation as it integrates the cost structures of Indesit with its existing Ariston brand. The Indesit acquisition in January

Electrolux-Zanussi and Merloni are almost neck-and-neck for the top domestic sales spot, with Zanussi just ahead

1988 boosted Merloni's total consolidated revenues by 77 per cent last year to L1,059bn.

In the past few months Mr Vittorio Merloni, chairman and majority shareholder of the eponymous group, has had conversations with various foreign white goods producers about *possible* co-operation. General Electric of the US is believed to have hinted at an offer for Merloni, apparently attracted by the Italian company's 10 per cent of the European market.

The GE-Merloni talks did not lead to any deal, but it is thought that the Americans were prepared to pay more than double Merloni's L870bn market capitalisation on the Milan bourse. Mr Merloni says he has no plans whatsoever to sell his company. Other exploratory talks have been held by Merloni with AEG of West Germany and with Thomson of France although Mr Merloni downplays these contacts as well, pointing out that "in this sector everybody is talking with everybody else and everybody wants to buy everybody else."

Merloni's costs are expected to rise by about 5 per cent this year and the company hopes to recoup around half of this increase by way of price rises and improved efficiency. The 56-year-old Mr Merloni is concerned that the rate of growth in the domestic Italian market in 1989 will be modest, "somewhere between 0 and 3 per cent." He is even more worried about the UK, which last year represented 23 per cent of Merloni's total turnover, slightly less than the proportion of Zanussi's revenues. This year the UK growth rate could be negative for Merloni and Britain as the proportion of total Merloni sales will slip to around 20 per cent, according to the chairman.

Integrating the UK sales and servicing sides of Ariston and Indesit has been a top priority, but it is proving a formidable task. Ariston's High Wycombe office was closed on June 1 because Merloni plans to shift all its commercial operations to the Indesit headquarters at Crayford in Kent.

But Mr Merloni laments the unwillingness of most of the 100 staff at High Wycombe to transfer to Kent and says this has hurt the group's UK sales.

In labour terms some 2,000 of the Merloni group's 5,950 employees came along with the Indesit takeover. Since last year Ariston and Indesit have actually been hiring more people in order to develop the manufacture of new niche products at the group's 10 plants, located in and around Turin, Naples and the Marche region of Italy.

In management terms the aim is to integrate Ariston and Indesit strategies between now and the end of 1990, eventually unifying the still separate boards and creating one group with two brand names, of which Ariston is the more upmarket. In particular Mr Merloni is working to bring together – and under control – the costs associated with administration, treasury management, components purchasing, product development and after-sales service. The sales networks themselves are to remain separate, with Ariston distributors handling 750 different models and Indesit a further 250 types.

Mr Merloni says he is not worried about "making more profits this year or next" and indeed his group net earnings declined by 11.7 per cent last year, to L18.2bn. Indesit turned in a break-even result last year. A recent analysis of Merloni by Sviluppo, the Milan investment bank, advises shareholders to sell because it forecasts that it will be 1991 before the company succeeds in integrating Ariston and Indesit sufficiently to reap enough profits to return to the 1987 net level of L18bn.

While Merloni carries on with its restructuring project, rumours are rife about what may happen to two of Italy's smaller white goods makers – Candy and Ocean, respectively the third and fifth companies in terms of market share. It is thought likely that one or both of these companies will eventually be either bought or merged with a foreign company.

The short-term outlook for Italian producers is thus similar to that for other European white goods manufacturers – a mixed bag of low growth in domestic and European sales, a battle against costs and pressure on margins, and a continuing drive toward niche sectors and products.

Both Zanussi and Merloni are large enough to be assured of a significant position in the Europe-wide market, but Mr Merloni, like other European white goods executives, predicts a further shake-out among the top 10 producers. "We are in the elimination round, the finals," he saya, adding sardonically: "It is now a matter of seeing who will be the first to drop out."

Alan Friedman


Andrea Branzi, the Florentine architect

In spite of designers of note ...

Public taste remains low

"ITALIAN DESIGN," says Andrea Branzi, "does not exist. That is its streugth." The speaker is the Florentine architect and director of Archizoom Associati in Milan, a noted practitioner and one of the few in this highly successful industry willing to offer explanations of this typically Italian paradox.

The design industry is a totally uninstitutionalised success story: no central school, no diplomas, no university courses. The professiou is unrecognised and unregulated. Anyone cau be, and is, a designer.

In the field of dress design, Valentino and Gianfranco Ferrè approach their careers from totally different directions: Valentino, the completely self-trained man, and Gianfranco Ferrè, the architect.

Both have now made Paris an important centre of their operations, thus showing how well-placed the industry is to face the challenges of post-1992. Gianfranco Ferrè has taken over from Bohan as chief designer at Dior, while Valentino will be showing his next season's collection in Paris as well as Rome this year, for the third time. This is a matter of necessity rather than choice, as frequent Alitalia strikes and poor telephone services make buyers less and less enthusiastic about coming to Rome.

Giorgetto Giugiaro, the creator of sleek car-bodies for the Maserati Ghibli, the Ferrari 250 GT, the De Tomaso Competizione and the Mangusta, is the son of a Piedmontese church artist. He acted as apprentice to his father and did not finisb his formal education.

Car design was his first but is far from being his only interest. He has recently designed the blouson unisex bicycle for the Bridgestone Company in Tokyo, a taxi for the Museum of Modern Art in New York, and a new shape of pasta for the Neapolitan firm, Voiello.

The Italdesign company was founded by Mr Giugiaro, with Aldo Mantovani, near Turin in 1968, It now has a turnover of Lire 32bn. Mr Giugiaro has (officially) designed 63 cars, of which 33 (including the highly successful Fiat Uno and Panda) are currently in production. But often the relationship is kept secret, so the true total is difficult to assess.

Mr Giugiaro has been forced to become a technological expert in order to survive, but he himself says that he has tried to look at cars creatively, keeping in mind the environment in which they have to fit. He talks like an architect, but is, at heart, a painter. Three years ago, he surprised everyone with a show of his works at the Galleria Rizzardi in Milan.

Industrial design is the true spiritual beir to the Italian artistic tradition. Mr Giulio Carlo Argan, art historian and one-time Communist mayor of Rome says: "If the art of the 14th century was Gothic, that of the 15th Renaissance, that of the 17th Baroque, then the art of the 20th is industrial design."

Today's design companies tend to be medium-sized paternalistic institutions, set in the tranquil auburbs of major cities, mainly betweeu Milan and the Alps (with Brianza as the historic birthplace of the industry) and probably have much in common with the *botteghe* where Giotto learnt from Cimabue, or Bernini from Borromini.

Italian design first dazzled the world with its shining chrome, smoked glass, luxurious leather and multi-coloured Perspex in the 1960s, but its official birth took place in the mid-1950s, with the publication by Domus Magazine of the "manifesto for industrial design."

The rapid growth of the industry was largely due to inspired managers sucb as Adriano Olivetti, for wbom Ettore Sottsass in 1969 produced the famous "Valentine" portable typewriter (which he describes as the Biro of typewriters) and Ennio Briou (Brionvega), wbo commissioued triangular totem-like television sets from the young Mario Bellini.

The close relationship with industry has been maintained, the designers concerned almost always keeping their own design practices and independence. The boneymoou witb industry continued, but some mistrust crept in as suspicion over tbe crude motives of industrialists built up and environmental pressure groups grew in strength.

In 1981, Ettore Sottsasa formed tbe Memphis Group (witb Andrea Branzi and others), which made a clean break with industrial rationality, and was as shocking to industrial design as Rauschenberg, Warhol and Jim Dine had been to the art world in the 1960s.

Italian design has, however, remained "design for an elite," unlike in other European countries wbere, perbsps because the industry has been nurtured and given governmental encouragement, good standards of design have filtered down to all levels.

In Italy, where visual sensitivity is generally high (how could it be otherwise with an endless supply of medieval and Renaissance cities providing instant architectural history?), no attempt has been made to improve even the street signs. Even the signs on the Autostrada del Sole, by Munari, are barely adequate.

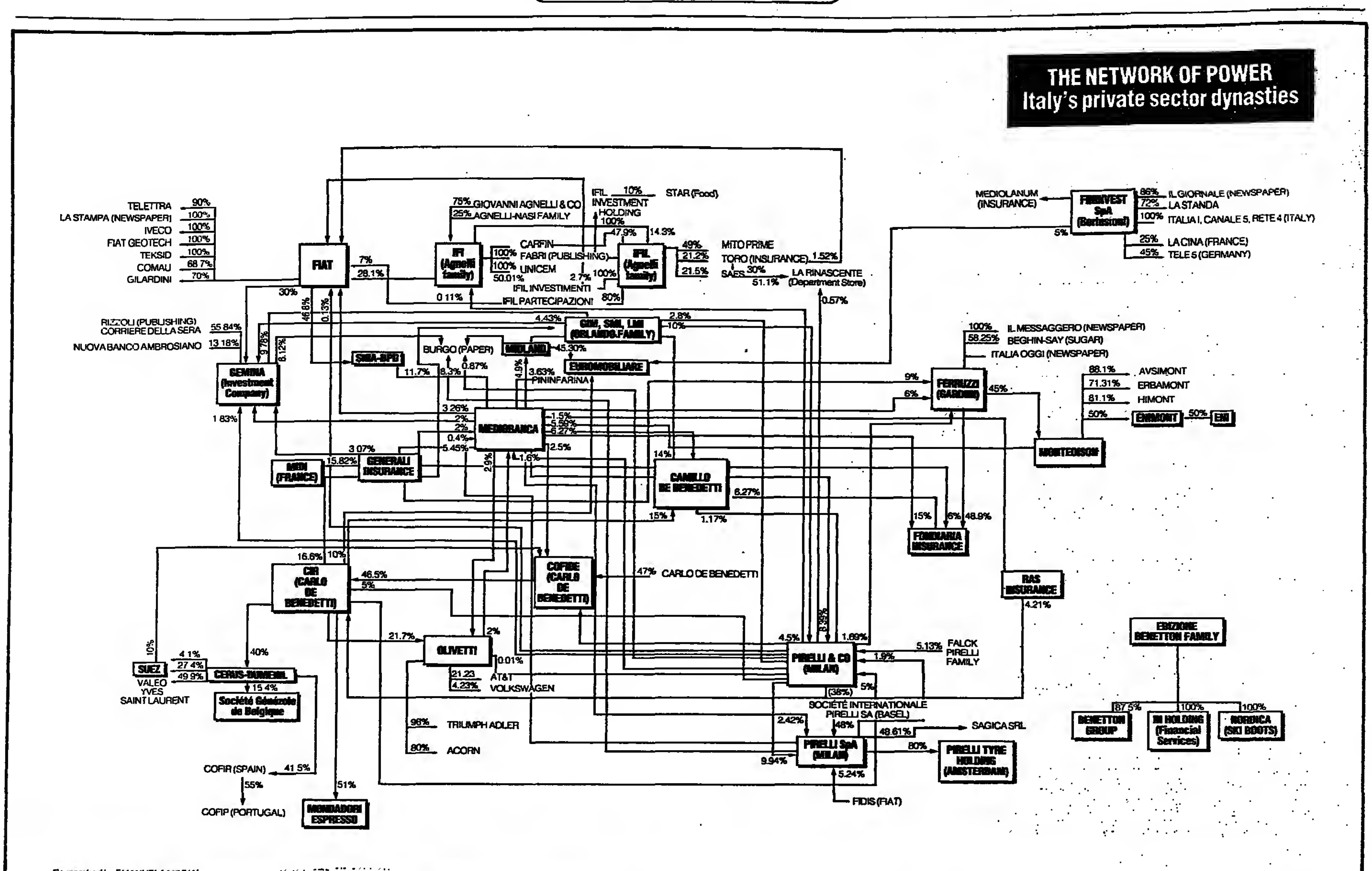
Public taste, too, is curiously uninterested in good modern interior design. One of the spearhead industries, Cassina (born in Brianza just after the war, when the head of the family firm was asked to refit the battered Italian navy's ships) made an ironic comment on the state of public taste in the 1960s. Alongside excellent and innovative modern design, It started a series called "I Maestri" (the Masters). These were high-quality copies of furniture designed by great names of the recent past, from Le Corbusier to Mackintosh.

It was a noble attempt to discourage the Italian public from continuing to furnish tbeir houses with poor reproductions of antique furniture – but only partly successful, judging from the proliferation of vast emporiums selling just such objects on the outskirts of all the major Italian towns.

There is also little attempt to use design to make life more pleasant for the harassed city-dweller, and such experiments as there are tend to be treated with incomprehension and derision. A recent courteous effort to let the crowds outside a Van Gogh exhibition in Rome know bow long they would have to wait from varions points in the queue was likened iu tbe Rome daily *La Repubblica* to the Italian equivalent of snakes and ladders.

Perbaps Italy's extraordiuarily talented and vitai designers should band together and twist the arms of local councils to give the public what it needs, like it or not.

Jennifer Grego



Researched by EMANUELA MINNAI

This year's illustration of the many cross-holdings in Italy's private sector network of corporate and financial power is the most complex since the series began in 1985. As the unified European market of 1992 approaches, Italy's top industrial and financial concerns are busy cementing more alliances designed in part to protect them from hostile takeover bids.

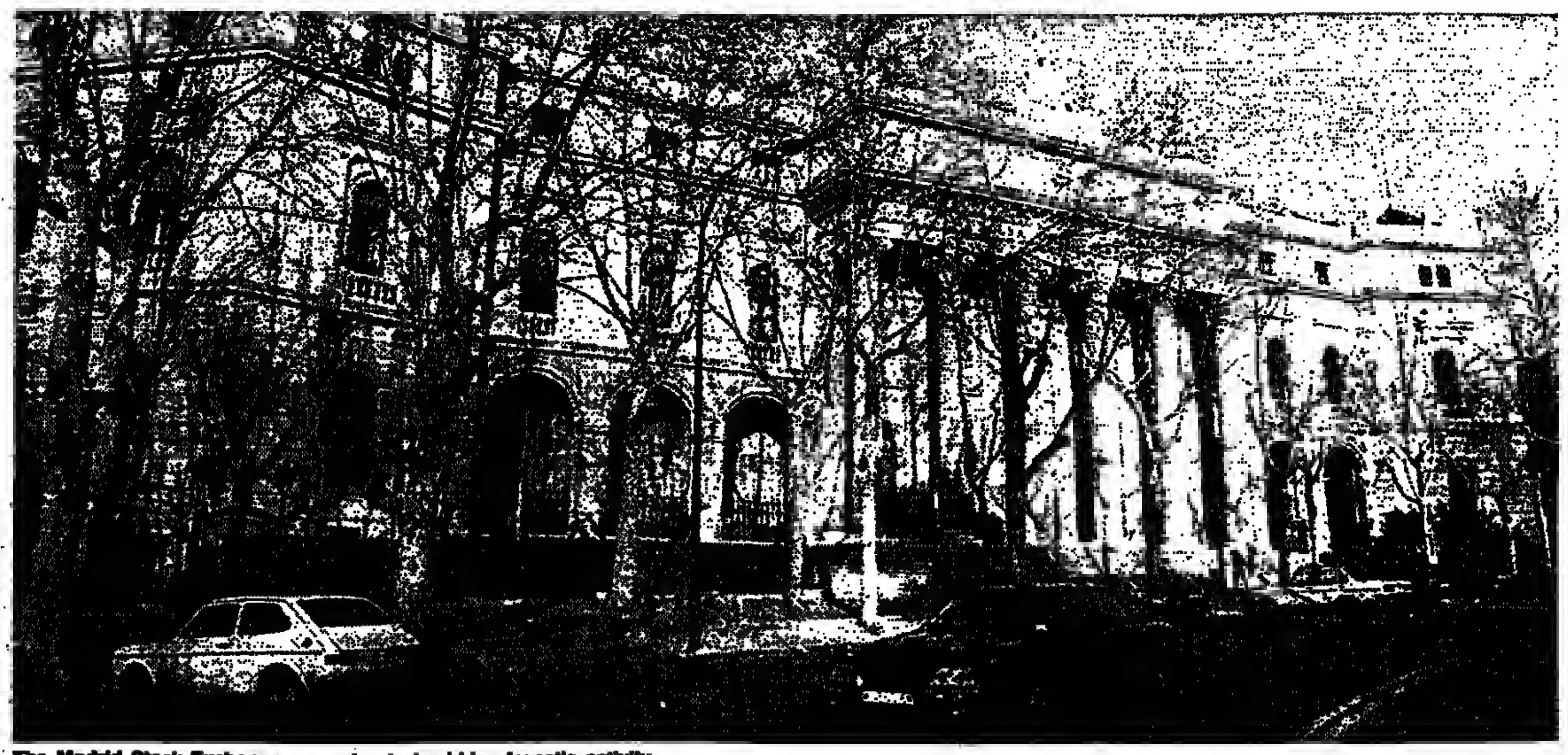
The cross-holdings show how some of Italy's top groups are diversifying from their core industries into financial and media activities; a prime example of this was the recent takeover of control of the Mondadori and L'Espresso publishing businesses by Mr Carlo De Benedetti.

The central position of Mediobanca, the Milan merchant bank, remains an immutable feature of Italian high finance, even though foreign bankers say its role could become vulnerable as more Italian companies require international rather than domestic corporate finance operations.

SECTION IV

FINANCIAL TIMES SURVEY

This week has seen a faster than expected move by Spain into the European Monetary System. At the same time, work continues around the clock to meet the deadline for the implementation of stock market reform, reports Peter Bruce



The Madrid Stock Exchange: a cool exterior hides frenetic activity

SPAIN: Banking & Finance

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Speeding up the rate of change

THE ACCELERATION towards a fully-modernised financial system is leaving Spain's bankers and financiers both breathless and struggling to keep their bearings.

The peseta, from the beginning of this week, joins the exchange rate mechanism of the European Monetary System. The move has come a year earlier than many had expected: it is only just over two weeks since Mr Carlos Solchaga, the finance minister, set a deadline of July 1990 for Spain's membership of the exchange rate mechanism.

Meanwhile, another deadline, almost impossible tight, is little more than a month away: July 29 is the date set for the implementation of the sweeping reform of Spain's four stock markets.

The complicated reform of Spain's capital markets is being implemented so quickly – the enabling Act was passed less than a year ago – that previous measures to modernise the economy, including the lifting of banking and investment restrictions on foreigners, now look positively tame by comparison.

On Friday July 28, Madrid's 80 or so *Agentes de Cambio y Bolsa*, brokers, walk on to the floor of the exchange and trade as Government-licensed individuals for the last time. The next Monday, those who have not fled the business altogether, or fled Madrid's stifling heat for the August holiday, will be back as registered broking or dealing companies. Trading, an essentially legal process now, will become a commercial one.

It is a leap into the great unknown. *Agentes*, who have supported each other on the floor as gentlemen, will have to compete as companies. The club through which they run the *Bolsa* becomes a limited company with member companies allowed to vote according to the weight of capital behind them. Everyone is scared that the old bonds will break. There is dark talk of commissions wars.

No government would have dared place the main players in an already vulnerable and small stock market in such jeopardy, though, had something not been going right.

For all the dire warnings of runaway inflation and general overheating, the fact is that the Spanish economy remains one of the most robust in Europe. Inflation, currently heading for some 6.1 per cent for the year, is about one percentage point higher than the government would have hoped, but there are real prospects of a slowdown in price increases later in the year as the peseta begins to subside against the D-mark and as rising inflation in Spain's European trading partners begins to dampen local enthusiasm for imported consumer goods.

Although the danger of higher interest rates still exists – the broad money supply measure ALP had grown 13 per cent in the first five months of 1988, well above the 9.5 per cent target ceiling – the Socialist Government has at last shown some willingness to take fiscal measures to stop the rot and not leave the battle to monetary policy alone. In May it lopped Pta115bn (£577m) off a number of ministerial budgets and took another Pta135bn out of circulation by raising and bringing forward corporate witholding taxes.

According to tha latest report on Spain by the Organisation for Economic Co-operation and Development (OECD), gross domestic product will grow in real terms by 4.75 per cent this year and it predicts a fall in official unemployment from 18.5 per cent of the workforce to 16 per cent by the end of 1990. Although the deficit on the current account of the balance of payments is likely to more than double this year to $8bn, a switch of financial resources away from imports should begin to help exporting industries.

Perhaps most important for market confidence, though, has been the way the government has dealt with a serious breakdown in the social pacts that bound government employers and unions together in Spain for 10 difficult years after the death of General Franco. A nation-wide general strike last December 14 to protest about conservative economic policies brought the country to a halt and clearly scared Felipe Gonzalez, the prime minister, and his party.

He was, earlier this year, under immense pressure to call an early election but resisted. Doing nothing seems to have worked. The unions have not been able to mobilise pnblic opinion to any serious extent. Thousands of wage agreements hava already been signed in the private sector – most of them one or two points above the 5 per cent the government would have liked – and public sactor union disruption, though severe in some cities, has been relatively low key.

The stock markets have rewarded the good news with a rush of activity in the past three months. The Madrid General Index, which had stalled below 270 by the beginning of March, has since whistled past the 300 barrier and by mid-June was approaching 320. The giant $1.14bn floatation of 26.5 per cent of Repsol, the state-owned oil conglomerate, attracted nearly 400,000 private Spanish shareholders in May in probably the most convincing display ever of the potential for popular capitalism in Spain.

At least the *agentes*, as they end their days of wine and honey (and fixed commissions), are going out with a bang.

The Big Qnestion now, though, is whether the market momentum is sustainable after July 29. According to local logic, tha more brokers and dealers admitted to tha new markets, the more liquid the markets will be. Three or four years ago, some *agentes* set up small investment houses precisely to prepare for July 29 – they hired and trained people as fund managers, analysts and traders. Many did not, though their hesitancy has been rewarded as big Spanish banks, foreign brokerages and investors like Mr Carlo de Benedetti have been clamouring at the doors of *agentes* with offers of partnership. (By law the only way a non-*agente* can enter the market initially is through a maximum 30 per cent partnership with one.)

Suddenly, the older bnt smaller independent houses look vulnerabla as other *agentes* find powerful partners just ahead of the registration deadline on June 23. The bank-backed *agentes* will probably dominate not only the market bnt also decisions about the way it is run because votes on the companies being created to administer the exchanges will be capital-weighted.

The fear among prospective brokers and dealers is that unless the Comision Nacional del Mercado de Valores (CNMV), the state-controlled regulator created just nine months ago, maintains the fixed 0.25 per cent commission on trades, the new members will quickly begin to squeeze fees and, in many cases, commit financial suicide. The CNMV may decide to hold the commissions as they are but it then risks ruining retail business for small brokers who say they cannot make small trades for such little money.

The scramble to put together a new capital market has also thrown up the absurd possibility that instead of all Spanish shares being quoted on a newly-installed computer assisted trading system (CATS), the markets could continue indefinitely with the old floor-trading system as well. Mr Carlos Croissier, the CNMVs 38-year-old president, says that as the law stands there is nothing he can do to force companies onto CATS.

Many *agentes*, meanwhile, say they will continue to encourage certain companies to stay off CATS. They say thinly-traded companies need a regular 10-minute floor trading session daily to keep their stock liquid and that they could be "forgotten" on CATS. "The old market will die hard," comments Mr Edward Nicholson, chief of Barclays Securities in Madrid.

True, and things might get even harder. Highish hopes at the end of last year that the introduction of private pension funds in Spain would at last generate a local sonrce of long-term capital for the markets have turned sour. Not a single Spanish company has yet registered a pension fund for its employees under the new law, largely because it provides for a majority of employees on the boards of trustees. Individual schemes have also been painfully slow in getting off the ground despite intense advertising by banks and the registration of dozens of new fund managers.

It means, in part at least, that more and more Spanish companies may look abroad for tha capital they need to restructure and also that the stock markets will continue to depend, to a high degree, on foreign investors for their liquidity. A quarter of the Pta2.4 trillion (million million) share trading volume in Madrid last year was made by non-residents.

In times of crisis or change the Spanish markets tend to look to the nation's big banks for reassurance and liquidity and here at least the prospects are considerably brighter than they have been for a long time. After a bruising, year-long attempt to merge, Banco Central and Banco Espanol de Credito (Banesto) have parted and are beginning to work their separate ways out of the mess they nearly created.

Banesto is clearing its board of dissident members and is trying to regroup its hnge industrial empire under a new holding company. That will take industry off the bank's balance sheet and the missing assets can be replaced by more traditional higher-yielding banking business. At Central, boardroom divisions continue but it, too, is slowly improving its core banking profits.

Spanish bankers have also finally shrugged off their nervousness about foreign competition as it has become clearer, at least among the big seven banks, that even major foreign commercial intrusions like Barclays' are hugely expensive and that the cost advantages of established branch networks – the big seven have between 1,600 and 3,500 branches each – are unbeatable.

Spanish banks have ended their defensive agreement not to sell off branches to foreign competitors if they close. At current property prices, opening a branch in competition with three or four other banks within easy walking distance (as is inevitable in Spain), is just not sound business.

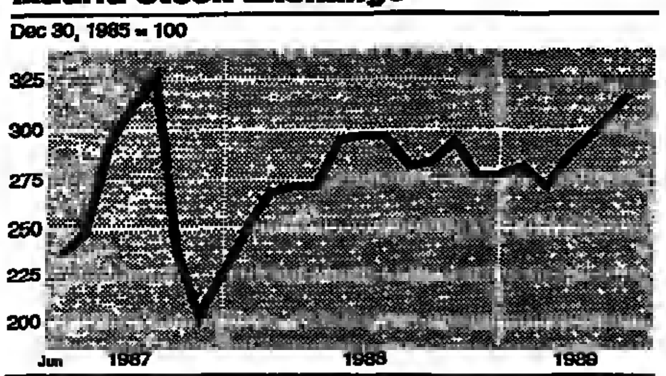
Peter Bruce looks at preparations for Spain's Big Bang

The aim is to get it right on the night

BY MID-JUNE, just six weeks away from Spain's Big Bang, the reform of the country's stock markets, the offices of the men and women who will become the market's new brokers and dealers, were not healthy places for perfectionists.

The introduction of the new trading laws on July 29 should, theoretically, mark the end of a Napoleonic system whereby stockbrokers (*Agentes de Cambio y Bolsa*), who pass a Government exam allowing them to execute share trades and to act as public notaries for a fixed commission (on shares) of 0.25 per cent, finally lose their status.

The relevant Act was passed less than a year ago and such is the speed at which the Spanish are trying to modernise their society that prospective brokers rushing to apply for membership of the new markets before the June 23 deadline confess that they still know little about how their new world will operate.



Today, each of the four Spanish *bolsas* — Madrid, Barcelona, Valencia and Bilbao - are administered by a *junta syndical*, a form of broker's trade union that makes rules, guarantees settlement and finances the running of the market. Trading is done on the floor of each market (although no longer true for Madrid, it is still possible in the marginal markets for the public to walk in and trade on the floor itself) with each share and sometimes whole sectors being traded in very loud *corros* (short trading sessions). The *agentes* employ *apoderados* (assistants) to do most of the shouting though they personally attend to *corros* in blue chip shares like Telefonica or Repsol.

Settlement of equity trades is even more chaotic in Spain, with three different systems operating, and can take up to a month to finalise. The stock market can still settle physically, with shares being moved from one custodian bank to another, but more recently has introduced a system of bearer shares which are not moved. Spanish banks, which channel the majority of business to the stock markets, run their own system.

From July 29, the *agentes* cease to exist and so does their junta. Some will leave the market altogether and work as notaries or retire. To remain members of the new market, others have formed brokerage houses and plan either to register as brokers, *Sociedades de Valores*, or dealers *Agencias de Valores*. Only brokers will be able to trade for themselves as well as clients. Any bank or investor wishing to take a seat in the Spanish markets has to do so in partnership with a former *agente* and although their initial stake in a broker or dealer is limited to 30 per cent, this limit will soften until it disappeares in 1992.

By mid-June all of Spain's big commercial banks and some savings banks had found *agentes* through which to enter the *bolsas*. Some foreign banks and brokers, notably JP Morgan, Barclays and Carnegie International, have also formed partnerships with *agentes*, while small investment houses set up by *agentes* in the past three years — Iberagentes, Ibercorp, F&G and Benito & Monjardin — have applied for bolsa membership and are trying to stay independent.

The new members of the exchanges will form new companies, *Sociedades Rectoras*, to replace the old juntas and run the markets. Applicants who miss the June 23 deadline set by the Comision Nacional del Mercado de Valores (CNMV is the new state-run market regulator) may have to wait until September to be reconsidered.

The *Rectora* will finance the market by charging its members a set fee plus a variable one based on the volume of trading done by each member. Voting on the board of the new administrator, however, will be determined by the wealth of each member, which will inevitably favour those who have formed joint ventures with big Spanish banks.

Assistants are employed to do most of the shouting, though *agentes* personally attend to *corros* in blue chip shares

The *sociedades rectoras* have to be in place by July 29 because until another limited company, the *Servicio de Compensacion y Liquidacion*, is constituted to run a new book entry system that would guarantee settlement in 3 days by 1992, the *rectoras* will have to do settlements themselves. By mid-June, the CNMV could not say when the new settlements body would be operating.

Each *Sociedad rectora* will, in turn, take a 25 per cent stake in a third company, the *Sociedad de Bolsa*, which will run a newly-installed computer assisted continuous trading system, CATS. The system has been operating since April but the CNMV expects only about 30 per cent of the shares quoted in Spain to be on CATS by July 29 and even then there is no telling when (or if) they ever will all be on the system. Quoted companies have the right to chose whether or not to trade on CATS, meaning that for another year at least, the *corros* on the floors of the four markets will continue.

CATS will be financed by fees paid by companies for the privilege of being quoted. Madrid's *agentes* — who do about 80 per cent of all Spanish stock market trading - worry that the system may be seriously weakened by alloting a 25 per cent share in it to each Bolsa. The Government did that to allay fears in the smaller markets that they would be marginalised in the new liberalised markets, but because it suits some markets more than others to trade certain shares on the floor, there is almost certain to be disagreement over introducing companies into CATS.

Members-in-waiting of the *Sociedades Rectoras* have also begun urgent discussion on ways to maintain some kind of discipline on commissions between now and 1992 when they will be fully liberalised. The CNMV appears to be disposed to leave them at 0.25 per cent, at least as a minimum, for the time being, but many independent brokers and agents insist that they could not do medium-term business at that level and that commissions for small trades should be higher.

For all the work still left to do, and given the impossible deadline, Spanish brokers and the CNMV are being remarkably relaxed, however. Somehow, the Spanish always manage to get it right on the night and there is little reason to fear that they will not — allowing for a few false starts — get it reasonably right by July 29.

Pressures on new stockbroking companies

Tough competition

WHEN THE telephone rings these days in the plush offices of Benito & Monjardin opposite Madrid's huge recreational park, the person at the other end of the line is very often a headhunter.

"We've had them ringing everyone in the company," says Teodoro Millan, executive director of corporate finance at the firm. As in most new stockbroking companies in the Spanish capital, B&M's small staff of analysts and dealers, painstakingly hired and trained from scratch over the past three years, is coming under tremendous pressure to move to new broking ventures being set up just ahead of the stock market reforms on July 29.

Once it became clear a few years ago that the comfortable old life of Spain's *Agentes de Cambio y Bolsa*, stockbrokers who make their living on commissions for executing share trades or as notaries, would end, a number set up broking companies modelled on British or American ones. Names like Ibercorp, Asesores Bursatiles, Iberagentes and F&G began to spring up. They began to do things that had been practically unheard of in the Spanish markets — research, for instance — and have now quietly branched out into fund management and investment banking.

Mr Juan Monjardin and Mr Enrique de Benito, both *agentes*, started B&M in 1984, the idea being that by the time the new streamlined Spanish market begins operating on July 29, the transition of their trade from Napoleonic to 20th Century Anglo-Saxon, would be smoother.

Many *agentes* have waited longer to prepare themselves but the law has been kind to

The search for safe market niches is now more urgent than ever

them, too. Today's *agentes* will still be the only people with the right to membership of the stock market after July 29. The headhunters are now either calling on behalf of ventures just formed between *agentes* and big Spanish banks keen to enter broking or foreign brokers trying to get into the new market (also with *agentes* as partners) at the last moment.

The rush for market membership — as *sociedades* capable of trading on their own account or as *agencias* who will trade only for third parties — in the past few weeks has made it clear that competition in broking will be very tough. Two weeks before applications close on June 23, the Comision Nacional del Mercado de Valores (the local Stock Exchange Commission) was expecting about 50 applicants.

"We don't think there is going to be enough market share for everyone," says Mr Juan Fabregas, B&M's chief executive. The partnerships formed in the last few weeks between *agentes* and big banks that threaten to dominate the market has made that observation even more acute.

Like most of the "independent" broking companies who started early, B&M has already begun to diversify away from broking into fund management and investment banking. But the search for safe market niches is now more urgent than ever because all the independents are looking. B&M's pre-tax profits of Pta800m last year broke down roughly into 12 per cent portfolio management, with brokerage and corporate finance accounting for the rest.

The plan, says Mr Millan, is to triple the contribution portfolio management makes in the next few years and to develop merchant banking expertise that might free the firm from the squeeze in fees and commissions in investment banking.

By his definition, merchant banking will involve B&M actually taking stakes in companies on its own account or managing stakes bought by clients in Spanish companies. It is already managing a 24 per cent in Radiotronica, a small producer of telecommunications equipment, for a foreign client. The role model is probably Cofir, the Spanish investment arm of Mr Carlo de Benedetti, which has made a number of selected industrial investments in Spain in the past two years, injected new capital into the companies, raised their profile in the investment market, and sold out for handsome profits.

The problem young firms like B&M, Asesores Bursatiles, Ibercorp, Iberagentes and Beta Capital have is that while they are relatively well-known among foreigners (mainly other brokers) who channel investment into Spain and who read their research, Spanish retail and institutional business still tends to pass through the country's big banks. The new independents all *seem* alike to Spanish investors. "The market is not yet discriminating between companies," says Mr Millan.

Apart from pushing hard to develop a particular market profile, there is little firms like B&M can do in the short term but wait for July 29 and see what happens afterwards.

Peter Bruce

BARCELONA STOCK EXCHANGE

Liquidity poses the greatest problem

MORE THAN 700 years after Spain first enacted rules regulating the activities of Barcelona's *Corredors de Llevant e de Llotja* — Levantine and commodity agents — the inheritors of the city's trading tradition can be found at the Barcelona Stock Exchange (BSE).

It may be only 100 years or so since the trading of securities began, prompted by the emergence of Catalan corporations in the mid-19th century, but the 35 *agentes de cambio y bolsa*, along with brokers and ancillary staff, are constantly reminded of the past as they tread the floor of the magnificent late 14th century Gothic trading room.

At present, however, they are more likely to be contemplating the uncertainties of the immediate future after the July 29 reforms. In the view of some close observers, the very survival of the exchange is at stake.

The BSE is Spain's second stock exchange by a rather greater margin than its home town is the country's second city. While its market capitalisation is roughly on a par with Madrid's, daily trading volume of Pta1.5bn is about a fifth that of its larger rival.

Of nearly 400 shares listed on the exchange, *half* are quoted only in Barcelona. Unfortunately, however, only a handful are traded actively. And the BSE has largely missed out on the upsurge in foreign investment in Spanish securities, much of which is channelled through the Madrid-based banks. Only about 5-6 per cent of trading volume is accounted for by foreign clients, against 30-35 per cent in Madrid, the BSE admits.

Liquidity has been the BSE's big problem. There are few parallels to the example of Torras Hostench, the Kuwaiti-controlled industrial group: the group's shares, largely for historical reasons, trade more actively on the coastal exchange than in the capital.

It is hardly surprising, therefore, that the July 29 reforms have prompted feelings of outright gloom among some proponents of a greater financial role for Barcelona in Spanish business, not to mention deep concern among back office staff over the proposed centralisation of settlement and liquidation functions in Madrid.

On the other hand, there are some who think the introduction of the CATS electronic trading system will help solve the key problem of liquidity. "Many stocks are not traded in Barcelona because there isn't the liquidity. Now people will be able to trade stocks here," says Mr Pedro Viñolas, a BSE financial analyst.

Mr Viñolas and others, including Mr Pedro Lecuona, one of the 35 *agentes*, believe that providing a better service will be the key to deciding whether trades are channelled via Barcelona rather than Madrid.

Long before the present reforms were put in train, the BSE had realised that *it* would have to be innovative to survive. In 1982 it started a second market for small and medium-sized companies which do not qualify for the main market because of size or other reasons. However, only 25 companies had joined by the end of 1988, prompted in some cases more by tax considerations than anything else.

But the BSE is hoping for greater success from its current new ventures, of which the most visible is its participation in the planned Spanish Financial Futures Market (MEFF). Along with five savings banks and 10 commercial banks, the BSE is backing what is intended to be Spain's first official futures market.

The project was conceived by the exchange with moral support from the regional Catalonian government, but Mr Cristobal Bunzl, the BSE's commercial director, says it could not have gone ahead without the banks, which support the need for a futures market.

With a possible opening date in December, it is proposed that the MEFF will trade two contracts, one in 90-day public debt "repos" and the other in medium-term public bonds. However, while the MEFF's central computer will be in Barcelona, handling liquidation and settlement, observers point out that the operators of the market will be in Madrid.

Mr Bunzl admits that many of the institutions that will use the market will be in Madrid but, nevertheless, believes the MEFF will act as a stimulus for financial activity in Barcelona.

Other recent initiatives by the BSE include Databolsa, an information service about companies listed on the exchange and their share price performance, and Stock Ratings, a company analysis service owned by the 35 *agentes* and formed last year. "There was a need for a deep, profound anal-

Continued on opposite page

Players and regulators in the new streamlined stock markets

A patient approach to a near-impossible job

THEY SAY Luis Carlos Croissier Batista is a hard man and there is probably some truth in that. Just 38-years-old, he became chairman of the giant Spanish state industrial holding company, INI, at 34, and industry minister when be was 36. When he was dropped from the Cabinet last summer he was quickly written off as a youthful wonder.

But he was written off too soon, as it turned out. A few months later he was named chairman of the newly-created Comision Nacional del Mercado de Valores, the national stock market commission, to become the chief regulator of the streamlined Spanish stock markets that come into operation on July 29.

For a young man given just nine months to put in place a reform probably more radical than Britain's Big Bang, he is remarkably relaxed. His hair, though it is disappearing, is not going grey. A lilting Andaluz accent has not hardened. His patience seems endless.

"We Spanish have a great ability to improvise," he says, drawing out the reforms on sheets of paper. His office, like his staff, is new. The job is almost impossible.

Six weeks before the dissolution of the *juntas sindicales*, the associations of Government-approvad *agentes*, or stockbrokers, that operate in and administer Spain's four stockmarkets – Madrid, Barcelona, Valencia and Bilbao – know very little about how the new settlements system and commissions will work and almost nothing still about how the exhanges will be managed.

The *agentes*, who from July 29 become registered brokers or dealers, still have no idea how the new market will be funded, what its costs will be, what the costs of the new computer assisted continnous trading system (CATS) will be, how a new limited company to make and guarantee settlements will work, or what commissions will be.

Mr Croissier and his small team, meanwhile, work well into the night to process applications for market membership from *agentes* who have opted to stay in the business. The deadline is June 23. But this is Spain. There is probably some order in the chaos.

"What Croissier needs now is not criticism but support," says Mr Carmelo Lacaci, an *agente* who, with his partner Jose Miguel Lombardia, have applied for membership as a *Sociedad de Valores*, a broker, in partnership with the big commercial bank, Banesto.

By mid-June the players in the new market – in fact they are tha same players, the *agentes*, who hava either formed broking or dealing companies independently or in partnership with banks and brokars, both foreign and domestic – had shed many of their original fears about the reforms.

It is clear that the century-old floor trading system, for

Mr Croasier: chairman of the new commission

example, will not vanish overnight. Although new shares are being added to the CATS system weekly, only 30 per cent will be on line by July 29. And, much to Mr Croissier's irritation, there is no legal way to force companies to enter CATS.

Agentes like Mr Lacaci, used to quick decisions on the telephone, say it can take too long to make a big trade by compnter and clearly enjoy the idea of their being able to continue the 10-minute *corros* or daily floor-trading sessions in each share for some time to come.

The *agentes*, who once worried they would be bulldozed into a tightly regulated market over which they no longer had control, now know, too, that many of the rules are theirs to make. Although their juntas go, they are being replaced by companies *Sociedades Rectoras* on which they all have a place and that the administration of the market is up to them.

But it is not all a bed of roses. The juntas were clubs operated by gentlemen's agreement with each *agente* having equal weight in decision-making. The *Sociedades Rectoras* will apportion voting rights according to the capital of each member broker or dealer. This will favour *agentes* who have teamed up with big Spanish banks and will inevitably lead to their domination in decision-making.

The fear among smaller independent brokers who will not be tied to banks is that if the old gentlemen's agreements begin to break down at this level, there is little reason to believe that actual trading would be friendly.

"It would be terrible if the banks took over the market," says Ms Angelica Rodriguez-Lopez, chief trader with Asesores Bursatiles, a prospective broker set up a few years ago by two agentes. "Its going to be very important to find a market niche."

In Madrid the likelihood is that up to 50 brokers and dealers – *agencias de valores* who cannot trade on their own account but who need less capital to win membership – will be registered by July 29 and even independent brokers feel that is too high. "It is a little too mnch," says Mr Cesar Alierta, president of Beta Capital, which is registering a non-member broker to do underwriting and an agency member to trade. "The first few months will be very hard."

Mr Lacaci, conscious that he and his partner could ba viewed, because of their partnership with Banesto, as one of the perils in the new market, is keen to play down fears of bank domination. "Forty or fifty companies will be excessive if they all try to do everything," he says. "But the problem should not be dividing the cake, it should be how to create a bigger cake. Wa [bank-backed houses] could dominate the market but it would be a *bolsa* filled with corpses. We want to grow not by killing other brokers but by finding new clients."

The problem, though, is that brokers who have linked up with big Spanish banks (to protect the *agentes* the Government has allowed them initially to own a minimum of 70 per cent of the new brokerages or dealerships) have access to huge retail networks through existing hank hrancbes. Banesto, for example, has 2,400 branches nation-wide and brokers, like Mr Lacaci, by definition, start out with mnch better accass to new retail customers than the independents.

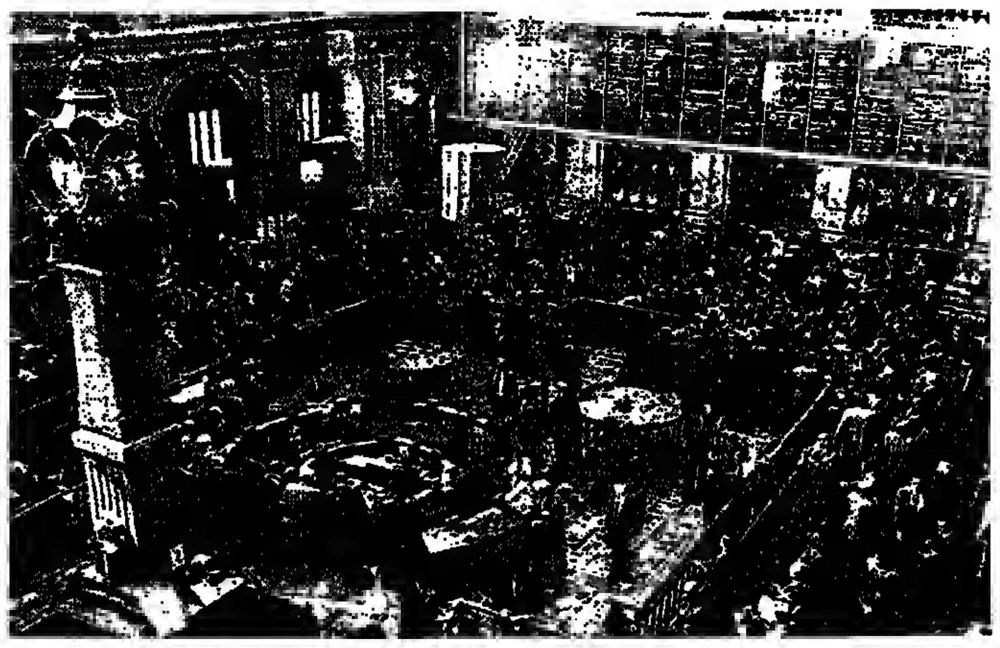
The banks are also perfectly placed to pass institutional business through their naw broking partnerships. If there is any market making, or own-acconnt trading, the banked-backed brokers are the most likely candidates, too, which could make them even more attractive propositions for institutional sellers.

These brokers will also be able to concentrate all their energies in trading, while independents are urgently trying to diversify into fund management and investment banking where they will inevitably bump into the big banks going about their normal business.

At the same time, it is brokers with powerful bank backing who will be best able to provide retail services should Mr Croissier decide not to introduce a split commission to replace the fixed 0.25 per cent that operates now. Without a higher commission for retail, says Mr Alierta, "there will be no retail". Mr Croissier's inclination seems to be to leave the 0.25 untouched, or at least to preserve it as a minimum until commissions are fully liberalised in 1992.

As July 29 approaches, bank-backed brokers lika Mr Lacaci are taking the lead in trying to assemble some sort of agreement to avert a commissions war. No Spanish *agente* has gone bankrupt since the end of the Civil War 50 years ago but it no longer seems impossible.

Everywhere, too, there are minefields for the *agentes* as they step out of their once protected world. Fixed commissions have made the market and its hrokers lazy. Until recently, there was practically no equity research in Spain. The market was greased by rumour, which is still reflected daily in the husiness press. Now, as the banks and foreign institutions form, last-minute partnerships with *agentes*, independents who set op small houses with a handful of untrained auditors as analysts two or three years ago, find their people being poached away with succulent salaries and bonuses.



It is clear that the century-old floor trading system will not vanish overnight

Carnegie International recently snatched four key people from Ibercorp with, reportedly, generous bonuses and sbare options. Mr Lacaci, whose firm plans to more than triple its 30-strong staff in a year, is hiring analysts from Loodon for anything, he says, up to Pta15m a year and reckons that for a senior analyst even Pta40m a year is not unthinkable. These are heady sums, especially hy Spanish standards, for young people taken on and trained mostly by tbe independents at around Pta5m a year ago.

'Eventually Spain will have one of the more advanced systems in the world'

"There are a lot of people who have bad no research," says Mr Alierta, "who will have to pay astronomic salaries". With traders and analysts thin oo the ground, the late arrivals, mainly banks, are paying anyway.

Meanwhile, Mr Croissier's commission concedes that it will not have a new settlemeots body in place by July 29 and that, for a while, liquidatioo will have to be overseen by the *Sociedades Rectoras* themselves. His plan to reduce Spaln's archaic settlement systems to a ceotral unified book-entry system whicb could guarantee settle in three days by 1992, has drawn howls of protest from markets in Barcelona, Valencia and Bilbao who fear, probably rightly, that they are being marginalised.

But settling can take weeks in Spaio and few players argue with the oeed to *streamline* the process. "Settlement will be the key to the new market," says Mr Edward Nicholson chief of Barclays Securities in Madrid. "Eventually Spain will have ooe of tbe more advanced systems in the world."

Mr Croissier should also be working on a promised code of *conduct for the market*, but it is obvious that this will have to evolve later, too. He has already shocked Spanish companies by forcing tbem to publish a full prospectus witb three years of audited accounts wheo they come on to the market or try to raise capital. With so many commercial banks and investment houses poised to play brokers or dealers, though, rules on insider trading cannot be far off.

"The more sophisticated the market gets the more difficult it is to use privileged information," says Ms Rodriguez at Asesores Bursatiles. But the temptatioo will be strong in the early months after July 29 as brokers struggle to survive in the half light betweeo their vanishing old world and tbe strange new one wbere old frieods wear crooked smiles..

Mr Croissier knows all this and more. He cannot stifle the market at hirth but he will no douht make sure the market knows he is there, watching. *And if the brokers think he is* a hard man, he is probahly not going to disabuse them.

Peter Bruce

Barcelona exchange's uncertainties

Continued from previous page

ysis of Spanish public companies," says Mr Bunzl. "But it also needed to be independent."

Finally, the BSE is introducing a computerised electronic order routing system, again backed by banks and local savings banks, enabling institutions outside the market to channel orders through to brokers electronically.

Meanwhile the *agentes* themselves have been regrooping to face the challenges of the new centralised market. Mr Lecuona has joined a new company of eight former agentes, five in Madrid and three in Barcelona. This will be an *agencia de bolsa* under the new rules because of the lower capital requirements.

Other alliances have been, or are being formed. A sign of the times was the deal under which the Caja de Pensiones, (La Caixa), Spain's largest savings bank, will take 30 per cent of Inverbroker, created by three *agentes*. This will be a full *sociedad de valores y bolsa* in both Madrid and Barcelona.

Observers predict that tbe current 35 Barcelona *agentes* will end up in about 10 companies. The greater investment in computers and analysis that will be necessary to improve the service to clients will be offset by cost savings as former individual *agentes* move into the same office, Mr Lecuona notes.

The likelihood is that the BSE's initiatlves and the receot alliances will be enough to secure the future of stock trading in Barcelona. However, it will not be too long before the atmosphere in the Gothic Trading Room changes – two shares a week are being added to CATS and 80 per cent of Spanish share trading volume is based on just 30 companies.

As for the structure of the exchange itself, there is considerable uncertainty as the new stock market commission has yet to decide what incomes the individual exchanges should receive. But it seems likely that the current Pta1bo-plus budget will be slimmed down radically, implying a sharp reductioo in the curreot staff of about 170.

Similarly, the new hrokerage companies hope to reduce staff costs because of the centralisation of settlement and clearance. But that is a rather delicate issue in Barcelona.

In the loog term much will depend on the BSE's ability to continue improving its service to clients, taking advantage of tha region's industrial concentration, influx of foreign companies and the prevaleoce of wealthy, investment-oriented families. "There is a base for a financial market because of the infrastucture," says Mr Bunzl.

Andrew Baxter

Andrew Baxter reviews the foreign banking sector

Cautious optimism after 10 years of growth

SPAIN'S FOREIGN banking sector celebrates its tenth anniversary this year in cautiously optimistic mood. This is despite the realisation that many innovations in recent years have long since been copied by the domestic banks.

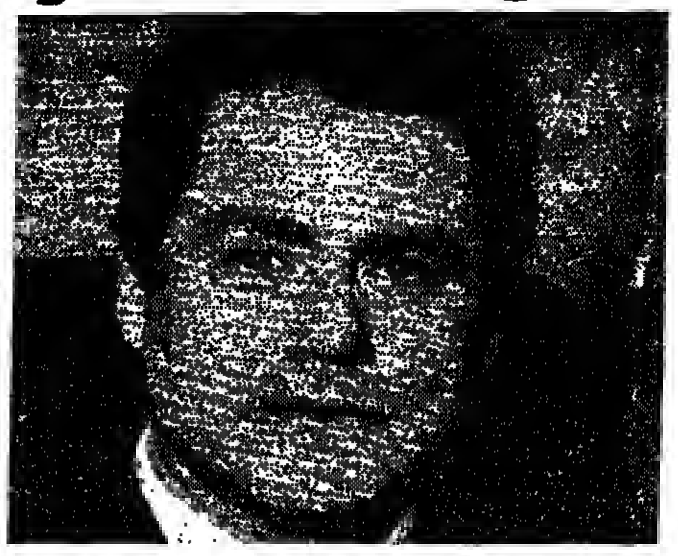
The handful of foreign banks with a real commitment to retail banking are pushing ahead with expansion of their branch networks. At the same time, they are less conspicuously trying to expand their fee-based, non-lending business.

Meanwhile, those foreign banks that have never bothered with e retail network – preferring instead to make inroads into commercial lending to big companies from bases in Madrid and Barcelona – are attempting to broaden their product range. Efforts are being made to maintain the natural advantages at the disposal of large, multi-national banks in an increasingly global market. New entranta, especially the big Japanese banks, are making their presence felt, while some of the US banks retrench as part of world-wide strategic reviews.

It was in 1979 that the Bank of Spain allowed the first group of 10 foreign banks (apart, for historical reasons, from four European banks) to open branches in Spain. Now around 50 foreign banks are present in Spain and can be credited with a range of products new to the Spanish banking scene, from floating rate notes and commercial paper to interest-bearing current accounts.

However, as some of these products have become commodities on the Spanish banking scene, many of the foreign banks are trying to enhance their status as "universal banks" involved in, for example, public sector bond trading as well as merger and acquisition work.

The increasing liberalisation of the banking scena is helping them do this. Banks such as Barclays of the UK, BNP of France and Citicorp of the US, got their first big break in retail banking in the early 1980s. This was after a banking crisis gave them tha opportunity to buy a number of near-bankrupt institutions from the Bank of Spain's "hospital".



Carlos Martinez de Campos: opening one branch a week

In all cases it has taken the foreign banks some time to turn these banks round, but they are now unrecognisable in their new owners' hands. Barclays took on 33 naw offices with its 1981 acquisition, Banco de Valladolid, but had boosted its branch network to 130 by the end of last year. In 1989, says Mr Carlos Martinez de Campos, president, it is opening roughly one branch a week.

For those foreign banks that have built up a retail banking presence by this ronte, further expansion is now more dependent on their own ambitions than on the restrictiveness or otherwise of the authorities. Elsewhere there is still a theoretical limit of three branches per foreign bank, but recently the Bank of Spain has been showing increased flexibility on acquisitions by foreign groups.

Earlier this year Dentsche Bank won e long battle to increase its stake in Banco Commercial Transatlantico, a medium-sized institution based in Barcelona, from 39 per cent to 66 per cent. Mr Wolfgang von Eckartsberg, Deutsche's director general in Madrid, says the decision was a "step towards, and a commitment to, 1992". Deutsche will attempt to bring the experience and wide product range of its capital market activities to bear on Bancotrans' client base and, via subsidiaries, will be entering new areas for its business in Spain such as mergers and acquisitions. "We have a lot of homework to do," says Mr von Eckartsberg.

Broadly, Deutsche is aiming to offer the same services to its Spanish clients as elsewhere, aiming to be a small universal bank in a market where the big domestic players also have broad product coverage.

The approach is mirrored at banks such as Barclays and BNP: the French bank believes that the nature of Spanish banking, where clients are accustomed to using e bank close to their home or office, argues in favour of a wide network not only for bringing in retail business but as a springboard for fee-based income.

BNP had 46 branches by the end of last year and hopes to have 110 in two to three years time. Mr Michel Durand, director general, says banks in Spain often receive "compensation" in the form of fee-based and other business in proportion to the amount of money they have lent to a company. He warns, however, that the "gravy" this represents on top of the "meat" of the more traditional banking activities is becoming an increasingly competitive market.

However, foreign banks are not only expanding their retail networks to provide a base for non-lending business such as foreign exchange trading. With the big Spanish banks unable or unwilling in many cases to offer interest bearing current accounts, except through their *segundo marco* banks, the foreign sector has e big chance to win new business provided it can overcome the average bank client's natural inertia against switching accounts.

"Ninety per cent of deposits in current accounts and savings accounts are up for grabs," says Mr Martinez de Campos, who introduced interest-bearing current accounts to the Spanish market in 1985. Barclays' aggressive approach towards winning some of this potential business is reflected in its eye-catching blne branch facades and slick TV advertising.

But the big foreign retail banks are keenly aware of the dangers of becoming too big and thus losing the flexibility of a small operation. "We don't want to go much beyond 200 branches, and thus assume a different dimension," says Mr Martinez de Campos. In the short term, keeping branches busy with the present product range, which includes a fast-growing mortgage business, will be the top priority for Barclays.

The more obvious prospects for geographical diversification, too, are not always quite what they seem. Barclays will be taking e cautious approach to expansion on tha costas because, says Mr Martinez de Campos, the complexity of the everage expatriate's financial affairs, and other factors, makes branches there twice as costly to run as those in Madrid.

Despite the activity and innovation of the past 10 years, the foreign banks' share of the retail market remains small. According to a recent survey by Expansion, the Spanish business daily, the foreign banks with branch networks boosted their profits by 54.3 per cent last year, helped by a much more favourable interest rate environment, bnt total profits of Pta22.6bn were dwarfed by the Pta453.7bn for the whole sector.

The list shows a wide variety in financial performances last year, with pre-tax profits of Pta4.02bn at Barclays contrasted by losses of Pta1.82bn et Chase Manhattan España. But even Barclays' performance is put in the shade by that of Manufacturers Hanovar: their pre-tax profits of Pta6bn last year were the highest for any foreign bank and reflect a strong commitment to commercial lending and related activities, rather than retail banking.

FOREIGN BANKS WITH BRANCH NETWORKS (1988)

	Pre-tax profits (Pta m)
Barclays Bank	4023
Natwest-March	1356
BNP España	862
Credit Lyonnais	746
Citibank España	662
Lloyds Bank	442
Arabe Español	314
SocGen de Banque en Espagne	58
Credit & Commerce	82
Chase Manhattan España	-1822

Mr José Garay, Manufacturers Hanover's senior vice-president in Spain, noted that the US bank was also in the first group of 10 foreign institutions allowed into Spain, but had not taken up the opportunity to buy a retail banking network. "I don't think we have missed much," he adds wryly.

Foreign banks have a much stronger hold on the commercial banking market than on retail business, which Mr Garay ettributes to product innovation and the ability to maintain strong relationships with corporate clients. He warns, however, that the wholesale banking arena is in danger of becoming over-banked as new players enter the market.

This explains why almost all the foreign banks are trying to get more advisory work for their clients, and why some are considering beefing np their securities-related business by linking with the new *sociedades de valores* on the Spanish Stock Exchange. Both JP Morgan and Barclays, via Barclays de Zoete Wedd, are seeking authorisation for this.

The problem for the commercial banks, however, is that their domestic counterparts, and to a moch greater extent the big foreign investment banks, see advisory work as very much their preserve.

Andrew Baxter

INVESTMENT BANKS

Drive for world recognition

A STROLL down Madrid's Paseo de la Castellana – past the impressive head offices of many of the big names in Spanish commercial banking – might give the mistaken impression that this is the only game in town.

But investment bankers are, as they will never cease saying, a different breed, and leave fewer physical clues when they decide to expand geographically. Even so, it does not take long to realise that, from their plush offices tucked discreetly away behind the more imposing establishments of their commercial banking counterparts, the big London and New York-based houses are leading a drive to put Spain on the investment banking map.

Concepts new to the Spanish business world are being introduced so rapidly that the acronyms and buzzwords of Anglo-Saxon investment banking are being subsumed into local parlance – *los leveraged buyouts* being the most obvious example of the trend.

But while most of the international players are taking a cautious approach to Spain in terms of the financial commitment, and are leaning heavily on the strengths of their London operations, none regret having given the country a higher priority over the past year, and in some cases, the last few months.

At Baring Brothers (España), Mr José Menendez, managing director, recalls that even before the company opened its Madrid office last September, "assignments were pouring in from all sorts of unlikely places ... we were inundated with work".

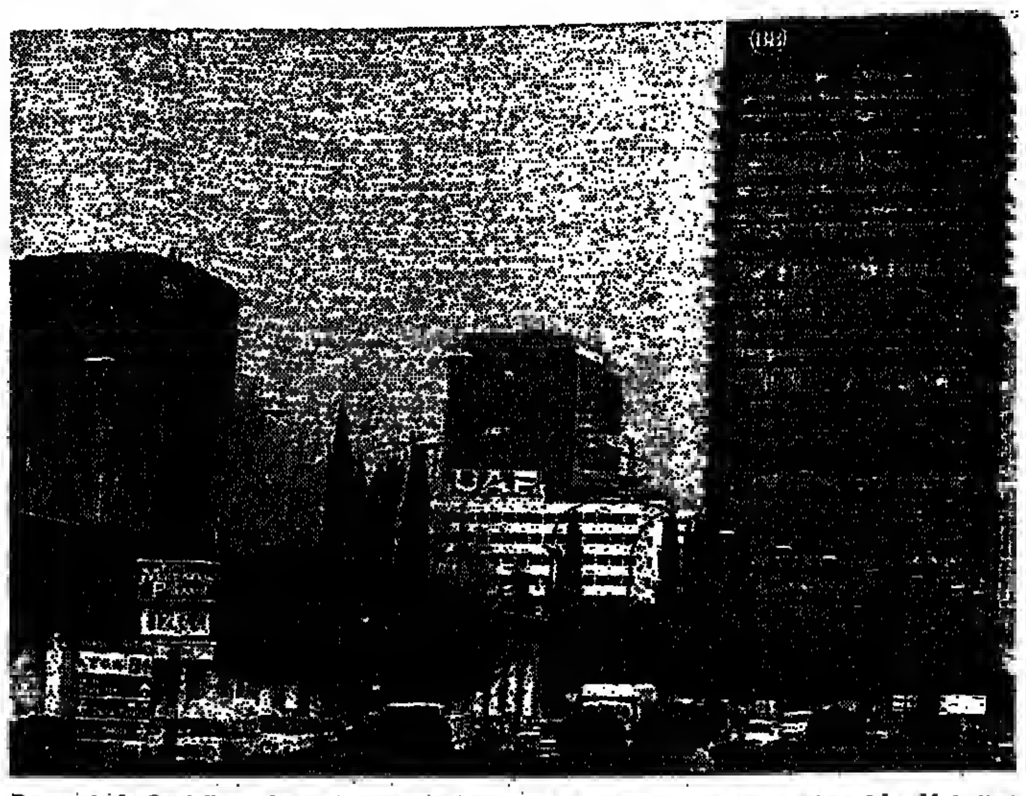
Like many of its rivals, Barings had participated in a number of cross-border transactions involving Spanish companies before it established a physical presence. This included acting as financial adviser to a subsidiary of Instituto Nacional de Industria (INI) on the Pta74.2bn international offering of shares in the electric utility Endesa early last year.

It is these kinds of cross-border deals – whether involving equity offerings or international takeovers – that have principally attracted the more recent arrivals from abroad. The impact of the 1992 EC internal market reforms is a powerful but not exclusive factor. The more internationally-minded Spanish companies are being spurred on to improve their competitiveness by expanding in Europe and boosting the attractiveness to foreign acquirers of a number of Spanish industries.

Other important influences on the investment banking boom include Spain's current strong economic growth. This is encouraging increased foreign investment and giving Spanish companies the financial scope to consider overseas acquisitions.

The nature of much of Spanish business is a further factor. Mr Alberto Ibañez, director of Salomon Brothers' representative office in Spain, pinpoints two types of takeover targets. The first of these is the family company, the owners of which are now looking to sell up. Like West Germany, Spain has a heavy preponderance of small and medium-sized family companies which were started after the Second World War and which are commonly facing a succession problem. The second type of takeover target is the poorly-managed company lacking financial muscle. With Spain's high interest rates these companies are, says Mr Ibañez, "working for the banks. The cost of money is forcing sell-outs to merchant banks ... who might try to float all or part of the company."

With so many different types of deals emerging, whether domestic or cross-border, merger and acquisitions-related or otherwise, it is not surprising that a number of different groups of institutions are entering what is becoming a very crowded market. They are:



Paseo de la Castellana: behind the scenes, trying to put Spain on the investment banking map

● The big foreign investment/merchant banks. This group dominates the market for international equity offerings for Spanish companies, and has had a strong influence in an advisory capacity on the major bank mergers, consummated or otherwise, in Spain over the past two years. Recent arrivals in Madrid include Rothschild España, in which the three active branches of the Rothschild family each have 33 per cent stakes.

Helped by NM Rothschild's work advising governments on privatisation, and its energy industry expertise, Rothschild España was named global co-ordinator for this year's Pta135bn part-privatisation of Repsol, the Spanish state oil conglomerate.

The way in which the foreign houses handle Spanish-related business varies greatly. Goldman Sachs, for example, has two executives working full-time from London, rather than a permanent presence in Spain.

Their strategies, however, are linked by the common wish to take advantage of the added value of their international networks and experience, although some hope that, eventually, it might be worthwhile to participate in more purely domestic deals. "Our strategy is to offer something that is not readily available in Spain," says Mr Menendez.

Concepts new to Spanish business are being introduced

● Investment banking units of foreign commercial banks. Increasingly, foreign banks are pushing into mergers and acquisitions and corporate finance as a natural extension of their commercial lending activities. At JP Morgan, Mr Victor Arbulu, vice-president for Spain and Portugal, says investment banking is becoming a growing part of business. The company has done leveraged buyout-equivalent transactions, but "has not found many good ones". Like the investment banks, it sees its role as acting more as an adviser than as merely a finder of target companies.

One of the strongest commitments to investment banking is shown by Bankers Trust which, after opening a branch in the early 1980s, decided two-and-a-half years ago that it did not want to remain in the price-sensitive wholesale banking business, making large loans to Spanish utilities, for example. Mr Stephen Ferriss, managing director, says the branch decided to concentrate on what was not provided in Spain and what Bankers Trust excelled at world-wide.

The result is a new strategy based on trading of financial instruments and corporate finance. The company aims to be the Spanish market leader in leveraged buyouts and sophisticated ownership transactions. The company is often investing on its own account, buying stakes in private companies and then taking them public or arranging private buyouts, and has also dona defensive work for companies threatened with takeover. Its ambitions received a boost this year with completion of Spain's biggest leveraged buyout, the Pta30bn purchase of Grupo Español General Cable by a group of its executives. "We call ourselves a merchant bank," says Mr Ferriss.

● Merchant bank units of Spanish banks. The domestic banks recognise that they may still be at a disadvantage on cross-border deals, but observers credit the smartest among them of reacting well to the growing domestic opportunities.

Given the banks' heavy long-term investments in industry, there are potential problems of confidentiality, and the *"bancos de negocios"* are careful to operate completely separately from their parents. Mr José Carballo, managing director of Banco Santander de Negocios, sees the unit as rather like a British merchant bank, involved in fund management, mergers and acquisitions, new issues, capital market activity and leveraged buyouts. The company is "more comfortable" with deals involving small and medium-sized Spanish companies, given the preference of the big concerns for a well-known international name.

Even so, Mr Carballo says there are no special benefits in being a Spanish institution. "This economy is so open that foreign banks do not have any disadvantage against us. If you look at our business product-by-product, there is always some competition."

● Boutiques. As in other markets, Madrid is seeing the rapid emergence of small, prodnct-specific bontiqne operations, staffed and owned by talented, wealthy financial experts, many of whom worked formerly for the domestic banks. Perhaps the best example is Iberfomento, formed last year mainly by ex-executives of two second-line Spanish banks and concentrating on mergers and acquisitions and financial advisory work. Last year Iberfomento acted as adviser to Area Editorial, publisher of the Expansion business daily, on the sale of e 35 per cent stake in the company to Pearson of the UK, owner of the Financial Times.

Amid such a competitive environment, investment bankers are asking themselves whether there will be enough business to go round in the run-up to 1992. Mr Ibañez at Salomon Brothers says there are "far too many players for the amount of business. Spain is not England and is not the US. There will be a process of selection."

Strong economic growth is encouraging foreign investment

Many of the new entrants, therefore, will need to examine what sort of institutions they want to be. At Rothschild España, Mr Rafael Beneyto, managing director, says the company will have to decide whether to stay with its present strategy, focusing mainly on big cross-border deals, or to expand into participation in the local market, where there are already "very many houses with good expertise".

The evidence of overheating is already present in the bidding-up of salaries to levels more commonly associated with the major world financial centres, and in the poaching of talented individuals or groups with real local knowledge.

For the international houses, there is also the fear that Spanish institutions will eventually be able to offer the same breadth and quality of service as they are now giving, at least in advising international companies on ecquisitions in Spain. That, observers feel, may well begin to happen over the next two or three years.

And although no domestic institution could hope to achieve the international placing power of Rothschilds, Goldman Sachs or Salomon, the big international houses are well aware that, in Spain, Repsols do not grow on trees.

Andrew Baxter

Banking community develops a healthy competitive outlook

Dust settles after battle of the giants

FORTUNATELY FOR Spanish banking, a passing observer might say, there is a world beyond Banco Central and Banco Espanol de Credito (Banesto). Were the domestic sector reduced to just these two institutions, the country's second and third-ranked banks respectively, then Spanish banking might as well close up shop.

At times over the past year it seemed that no other Spanish banks existed. First, Central and Banesto agreed to merge and then they agreed to go their separate ways. Before,

At times it seemed that no other Spanish banks existed

during and after these events there was exhaustive press coverage of dozens of boardroom battles and the dirty linen was well aired.

What prospect could there be for Spanish banks in a post-1992 Europe after such a messy process? The sector appeared to lack professionals and was burdened with doubtful assets. Spanish banking looked incapable of expanding its business in the orthodox manner by increasing customer deposits and it seemed to be at the mercy of foreign competitors.

But now that the dust has finally settled, a very much changed picture is emerging: Central and Banesto seem to be making a good job of putting their houses in order. They are behaving as if their ill-fated courtship were merely a phase of summer madness and they are both all the more sober and sensible for the experience.

Banesto, always the more troubled of the two, has attracted new shareholders to replace the disruptive ones. Should it succeed in streamlining its unwieldy industrial interests, and in segregating them from the bank itself, it looks well placed to make the most of its potentially high yielding financial assets.

The rest of Spain's banking community is more bullish than it has been for years and there is a healthy competitive atmosphere that was previously lacking. Interest-bearing current accounts are the latest product to catch the imagination of the institutions and of the public and competition is cut-throat one.

The current fight for customers is a long way removed from the former perception of a cartel-based domestic sector, an oligopoly as critics termed it, which excelled only in shoring up the inertia of its members.

As recently as last year there was talk of a gentlemen's agreement not to sell branches to foreign banks. Now, such is the self-confidence of the domestic sector, a European institution can buy as many branches as it wants, although they do not come cheap. Barclays is buying, and Deutsche Bank has acquired outright the Barcelona-based Banco Comercial Transatlantico. Despite these moves there has not been the slightest sign of concern among the Spanish banks.

Banco Popular, the smallest of the major retail banks, has become a model of transparency and sound profitability and it has also built up efficient defences against unwelcome raiders. Banco Santander, next up in the pecking order and the most profitable of the lot, has cemented an innovative joint business strategy in Europe with the Royal Bank of Scotland. As for Banco Hispanoamericano, nobody looking at its current performance would suspect that it was in trouble not five years ago.

The most upbeat picture of all is the one shown by Banco Bilbao Vizcaya, the number one bank that resulted from the merger of Bilbao and Vizcaya.

Underpinning the new mood is a well-argued comparative analysis by Mr Rafael Termes, the chairman of the Association of Private Banks. This sought to demonstrate that Spain's banks were at least as well run as the European ones

Central and Banesto seem to be putting their houses in order

and that they could face 1992 with optimism.

The analysis showed that the operating income of the Spanish Banks as a percentage of total assets was second only to that of the Irish banks, while operating costs were lower than those in Ireland and in Britain and only marginally ahead of the EC average. Pre-tax bank profits in Spain as a percentage of shareholder funds stood at 19.68 in 1987, just ahead of those in Ireland and well ahead of those elsewhere in Europe.

European bankers following the Central-Banesto headlines in the past months would be quite wrong to infer that the Spanish banking sector three years from now will be a push-over for all who enter it.

Tom Burns

Tom Burns analyses BBV's strategy for a merger

Speedy union of the cousins

MR PEDRO DE TOLEDO, the former chairman of Banco de Vizcaya, had one very clear idea in mind when he agreed, 18 months ago, to join his bank's forces with those of Banco de Bilbao. Speed was vital if the union between the two Basque "cousins" of the Spanish banking world was going to work.

There was reason for concern because rather than a communion of spirits, the future Banco de Bilbao Vizcaya (BBV) looked in January 1988 like a rebound relationship. Bilbao had been turned down flat the previous month when it launched a bid on Banco Espanol de Credito (Banesto), and Vizcaya had a few months earlier been cold shouldered when it had approached Banco Central with similar intentions.

Insisting on speed, Mr de Toledo used to say 18 months ago that "the mud in a merger process sets very quickly" and the dictum launched the two banks into a dizzying pace of joint activity to create the BBV according to a strict time schedule.

On June 1 last year, when extraordinary shareholder meetings of the two banks agreed to a merger that had been announced barely six months earlier, Mr de Toledo and Bilbao's Mr Jose Angel Sanchez Asiain, BBV's current joint chairmen, unveiled what was known as the Basic Integration Plan. This was a programme that listed 388 specific tasks which had to be completed by October 1, the date of BBV's formal registration as a bank.

On October 11 a total of 56 operational committees were

Pedro de Toledo: 'the mud in a merger process sets quickly'

created with the brief of developing all aspects of the merger process and on December 1 a General Integration Plan was approved by BBV's board which specified 664 projects to be undertaken in the course of this year and of 1990.

Looking back, it took the two banks less than a year to have their merger endorsed by their boards, by their shareholders and by the government, and it took them less than six months to create a wholly new management structure and to put in motion a joint strategy.

Senior BBV executives say that only the passing of time will bring about full integration but they claim that they are currently two years ahead of the targets they set themselves. Certainly BBV's logo is as familiar to Spaniards as a bullfight poster.

The nuts and bolts of the BBV merger will no doubt be the subject of future MBA seminar courses. Students will be examining the manner in which BBV has chosen to "sandwich" the staff of the two banks so that an ex-Bilbao employee reports to an ex-Vizcaya one who in turn reports to an ex-Bilbao one and *so on* up the executive pecking order.

The similar Basque roots of the two banks, and the fact that most of their managers share a common background in Bilbao's Jesuit-run Deusto University, might suggest a trouble-free integration but the impression is a deceptive one. The two banks, despite the similarities, have distinctly different corporate cultures.

In broad terms Bilbao, the larger of the two, was the more stratified and it boasted a stronger organisation, while Vizcaya liked to cultivate a lean and hungry image. Vizcaya gained a reputation for the manner in which it recruited clever all-rounders and quickly rewarded individual merit.

At the senior executive level, the inevitable tensions that follow a merger have been diluted by a buoyant job market. This has absorbed not only those whose services BBV no longer required but also a number whose skills BBV would rather have retained.

Lower down the scale the problem is more acute, for BBV plans to close down nearly 400 branches in the course of this year and to shed 1,000 jobs a year over the next three years.

The strategy adopted by BBV also gives room for thought. Although BBV may rank 75 in asset terms among the world banks, and is a third of the size of a Natwest, it is, by Spanish standards, a very big bank indeed: it is one-and-a-half times larger than the second-ranked bank, Banco Central, and it has a 20 per cent share of the domestic banking market.

Sheer size was one of Mr Sanchez Asiain's key considerations, for the former Bilbao chairman had consistently argued over the years that Spanish banks lacked the economy of scale required to compete after 1992.

Nevertheless, the major strategic decisions taken in the aftermath of the merger have pointed more towards diversification than to a concentration of power.

Arguably the most interesting aspect of the merger has been the new bank's policy of increasing its market quota by creating secondary trade marks. This has been done through second-tier mergers of

Banco de Bilbao Vizcaya: logo as familiar as a bullfight poster

the small banks that were part of the Bilbao and the Vizcaya groups.

In *Catalonia* Banca Mas Sarda, which belonged to Bilbao, has been absorbed by Banca Catalana, which belonged to Vizcaya, to create an extremely effective local bank in an area thet has a marked regional identity and the fastest growth rate in Spain. In a second strategic decision, Bilbao's Banco de Comercio absorbed Vizcaya's Induban, a similarly small bank.

The revamped Banco de Comercio, which has takeo over 90 nation-wide branches that belonged to the BBV network, has been launcbed as a strong medium-sized bank to compete with Barclays, Bankinter and others in the profitable and innovative second division of Spanish banks.

Far more flexible than its huge parent, Comercio can attract more select clients with a series of services sucb as interest-bearing cnrrent accounts that the large retail banks are unable to provide.

A third new product has been the recent creation of a private bank called Privanza which has introdnced wealthy Spaniards to personal banking. It has started up with eight brancbes, of which two are in Madrid and another two in Barcelona, and with 3,000 millionaire accounts holders who had formerly banked with Bilbao and with Vizcaya.

BBV has opted for rationalised diversification

Instituto Oficial de Credito

Pacemaker for change

THE ART COLLECTION that Mr Miguel Muñiz, the chairman of the Instituto Oficial de Credito (ICO), has been acquiring on behalf of the institution he presides over is symbolic of the winds of change that he wants to blow through Spain's state banks.

Gone are the dull, academic portraits of long forgotten bankers. In their place Mr Muñiz has had hung huge abstract canvases, painted by Barcelo, Gordillo, Sicilia and the other young pacemakers of Spain's contemporary art market. ICO's chairman talks as knowledgeably and as enthusiastically about the purchases as he does about the "strategic plan" he has set in motion to overhaul the specialised credit agencies that the Institute controls and co-ordinates.

An autonomous administrative body, which used to be funded directly by the annual state budgets and which still remains under the jurisdiction of the finance ministry, ICO has, under a recent change in its statutes, taken on the guise of a public enterprise.

The catch-phrase among Spain's state companies is that they must be competitive and ICO is no exception. Mr Muñiz says the Institute now has a "dual vocation", for while it will continue to be the government's chief financial agent in areas such as development aid funds and domestic industrial restructuring programmes, it will become an ever more active player in

Gone are the dull portraits of long forgotten bankers

the open banking market.

What Mr Muñiz, a long time socialist party member and a former senior treasury official, is in fact running is a publicly-owned financial holding that is the sole proprietor of Spain's four state banks: the Banco de Credito Agricola, which deals with farming loans; the Banco Hipotecario de Espana, which arranges mortgages for housing projects; the Banco de Credito Industrial, which specialises in funding new firms and industrial growth; and the Banco de Credito Local, a bank that meets the credit requirements of local authorities.

The first step towards competitiveness has been to integrate more closely the management of the four banks and the second has been to encourage the different executives to diversify banking products.

In the meantime ICO has pumped Pta102.4bn-worth of capital into its subsidiaries with the aim that the shareholder funds should represent a minimum of 5 per cent of each bank's total resources. A further Pta59.6bn is to be injected this year to raise the ratio to 7 per cent.

Results so far indicate that ICO and its banks are weathering the new open market environment with apparent ease. The group's total lending by the end of 1988 represented a 15 per cent share of the market and new credits total Pta1 trillion (million million), a 40 per cent increase on 1987. Last year the Banco Hipotecario provided for the first time more mortgages to the private sector than to the official housing projects.

At the end of 1988 the total volume of deposits raised by the four banks was Pta521.5bn, a 73 per cent increase on 1987. Given that until two years ago the state banks were not in the business of capturing client deposits, the ICO group has shown remarkable powers of adaptability.

Mr Muñiz attributes the success to the straight exploitation of collaterals. Instead of just providing funds to local authorities as in the past, the Banco de Credito now encourages the municipalities to open accounts with the bank and it sells them a full range of financial management services.

At one level the ICO group can steal a march on the private banking sector: its operating costs, 0.4 per cent of the total assets, are well below the *2.8 per cent average in the private* banking sector. With just 69 branches and 2,690 employees, the ICO group is better placed than others to enforce strict in-house financial control and its lending rates are invariably at the lower end of the band.

But after the initial sprint into the open market, a "spectacular entry", according to Mr Muñiz and one that, if nothing else, underlines the banking boom in Spain, ICO could find its further progress hampered by personnel problems.

Although there is a high degree of specialist skills among the executives of the four banks, the overall company culture of the ICO group fights shy of market competition for it reflects the former cosy relationship that the state banks enjoyed with the administration. Mr Muñiz concedes that changing a corporate attitude, such as the one that the ICO group has evolved, is by no means an easy task.

ICO's chairman is nevertheless determined to push the group along the competition path. In the course of this year all of the ICO group's employees will be spending at least a week attending a custom-built training course.

A specific problem is that although Mr Muñiz wants managers to work as aggressive private bankers, he is hamstrung by the rigid and low salary structure that exists in ICO as it does in every state enterprise. A senior executive in the ICO group, at current wage and fringe benefit levels, is earning as much as three times less than his opposite number in the private banking world.

Tom Burns

Key for code-breakers

THE NEW arrival in Spain will find that an aptitude for cryptic crosswords is a considerable advantage.

The newcomer is likely to be stumped when a Spanish acquaintance asks for an opinion on the latest DGTE (pronounced Dehgehteh) ruling in the BOE (Boheh). In time, it will become clear that the first set of initials stands for the Direccion General de Transacciones Exteriores, the foreign transactions directorate general that controls investment from abroad, and that the second is an acronym for the Boletin Oficial del Estado, the state gazette that publishes all government decrees.

The new arrival will soon discover the Spaniard's fondness for codes. The political history of post-Franco Spain is riddled with cyphers that are used constantly in the press and in every-day conversation. A working knowledge of them is essential.

A short code-breaking guide would include 20-N, the date of General Franco's death on November 20 1975; 15-J, which means the first democratic elections held on June 15 1977; 28-O, the date of the landslide Socialist Party electoral victory on October 28 1982; and 14-D, the most recent cypher to have entered the vocabulary and which marks the General Strike on December 14 last year against the Socialist (or rather PSOE, Pehsoheh, Partido Socialista Obrero Espanol) government.

The most popular date of all is 23-F and it has achieved a near cabalistic status. It is instantly understood to mean the February 23 1981 coup attempt, but it could also signify the government seizure of the huge, and near bankrupt, Rumasa private holding on the 23-F of 1983, or the final collapse of the attempted Banco Central and Banesto merger on February 23 this year.

It would certainly be easier if newspaper headlines were explicit and snappy but frequently they are neither. One recent headline read "UGT and CCOO oppose the sale of ENFERSA to FESA". It would have been clearer if it had said: "Unions oppose fertiliser privatisation."

UGT, Union General de Trabajadores, the Socialist trade union, and CCOO, Comisiones Obreras, the Communist one, are in the news every day and their acronyms are among the first a new arrival meets. The repeated initials, by the way, as in CCOO, can be confusing but they simply indicate a plural as in FFAA, Fuerzas Armadas, the armed forces. There are give-away clues, meanwhile, contained in the acronyms ENFERSA and FESA.

An SA at the end of a set of initials, as in those above, indicates a Sociedad Anonima or a company. One should, however, be cautious about reading too much into it: although Spanish company law requires all businesses that have a capital in excess of Pta5bn to adopt the SA format, there is no minimum capital outlay required for its use. A cab driver with two taxis can style his business an SA.

An EN at the start of a set of initials that ends in an SA indicates an Empresa Nacional or a state-owned company. ENFERSA is thus the public-owned fertiliser company, the Empresa Nacional de Fertilizantes, in the same way that ENDESA is the state-owned electrical utility and ENDASA is the public-owned aluminium company. FESA, Fertilizantes Espanoles, is a private company that is bidding to acquire its public rival.

Codes that kick off with an AE, an AN or a CE inevitably denote business groups such as in AEB, Asociacion Espanola de Banca, that group's bankers, ANFAC, the national association of car manufacturers or CEOE, the Confederacion Espanola de Organizaciones Empresariales, the employers confederation.

Businesses in Spain are rarely large and there is, therefore, frequent reference to PYMES which stands for Pequena y Mediana Empresa, small and medium companies — they have their own confederation that is called the CEPYME.

A DG, a directorate general, as in Dehgehpeh, indicates a senior branch of the administration. It crops up in different guises like the DGPA, which monitors agricultural production, and the DGOH (Dehgehohacheh) which is responsible for hydraulic works.

Just as ubiquitous are the SODES which are mercifully easier, and more fun, to pronounce. These are the Sociedades de Desarrollo Industrial, or industrial development agencies, and they are dotted around Spain. Knowing which is which depends on one's acquaintance with Spanish geography. SODIAN, SODIEX and SODIGA, for example, will welcome foreign investors in Andalucia, Extremadura and Galicia, respectively.

For a more exhaustive code-busting guide all those arriving in Spain should arm themselves with the book: Spain, a Guide to Political and Economic Institutions by Peter J Donaghy and Michael T Newton, published by the Cambridge University Press. Mr Donaghy has also helped to compile an excellent Spanish-English financial dictionary, Diccionario de Informes Financieros, that has been sponsored by Coopers and Lybrand

Tom Burns

Andrew Baxter examines the controversial role of the savings banks

Agreements help to clear the air

SPAIN'S BIGGEST savings banks are entering a new era of expansion following three years of controversy and debate over their role in the country's financial services industry and, particularly, their presence in insurance.

The government's decision last year to remove geographical restrictions on the savings banks was, in one respect, part of Spain's efforts to strengthen its financial institutions ahead of the 1992 EC internal market reforms. But it was also a logical response to the savings banks' stealthy emergence as major institutions while retaining a non-profit making status.

The biggest savings bank, the Barcelona-based Caja de Pensiones (La Caixa), is Spain's second biggest financial institution in asset terms after Banco Bilbao Vizcaya, and the sector, as a whole, has about 46 per cent of the Spanish banking market, up from about 35 per cent in the 1970s.

Mr Rafael Jené, assistant director general at the Caja de Ahorros de Cataluña, the country's fourth biggest savings bank, explains the process as follows: as the foreign banks began to take a strong hold on lending to leading companies, the Spanish banks, for the first time, took an interest in the mortgage market, hitherto the preserve of the savings banks. But the savings banks, in turn, started encroaching on commercial lending to small businesses, at the expense of the commercial banks.

"Competition is increasing, margins are decreasing but assets are diversifying, and that is a good thing," says Mr Jené.

These gradual, little-noticed changes come in sharp contrast to the furore raised by the savings banks' recent activities in insurance.

For many savings banks the business is not a new one. But a series of tax changes in the mid-1980s suddenly enhanced the attractiveness of the savings banks' "deferred capital" life insurance policies in which, typically, payment of a single premium gives a guaranteed return a year later or on death if earlier.

This created the equivalent of a term deposit, but because the so-called *primas unicas* were insurance rather than financial products, individuals did not have to declare the capital gain on their tax returns.

The impact on the savings banks' balance sheets was palpable. La Caixa, which is Spain's biggest life insurer by far, increased its funds taken for insurance products from Pta241bn to Pta822bn in 1987.

But as funds flooded in the tax authorities were not far behind, suspecting, quite rightly in many cases, that the

Mr Rafael Jené

policies were being used to evade taxes. The ensuing wrangles between the government and the industry over "black money" and disclosure of the policy-holders names could drag on for two to three years. Inevitability the row has led to a drastic cooling off of interest in the *primas unicas*. At La Caixa, the share held by insurance in total group assets is 40 per cent but falling sharply, according to Mr Tomás Muniesa, assistant president. "Many people who used to buy these type of policies ... are now worried about losing time in arguing with the tax authorities."

To make matters worse, Spain's other insurers noticed in 1987 that the country's negotiators on entry into the EC had failed to spot that the savings banks would require permission from Brussels to stay in insurance.

While this problem has not yet been resolved, a series of agreements at national level has helped clear the air. In return for winning the ability to open branches nation-wide, only five savings banks, including La Caixa, Cataluña and the Caja de Barcelona, the other big Catalonian institution, will be able to offer insurance under their own name, and that in their historically-defined regional areas.

The savings banks will, however, be able to have unconsolidated insurance subsidiaries nation-wide, and the big institutions have already set these up to sell products such as mortgage-linked life insurance.

The compromise opens the way for major expansion by the big savings banks, and has already prompted a scramble to merge among the smaller of the 80 institutions in this sector.

The merger trend seems now to be spreading to the major players in the sector. Earlier this month La Caixa and the Caja de Barcelona started serious negotiations, after three months of preliminary talks, on a possible merger which would create Spain's largest deposit-taking institution.

La Caixa seems, in any case, well prepared for the challenges ahead. It already has a network of some 230 GrupCaixa offices beyond its home base of Catalonia and the Balearics, limited to a number of specialised financial products. These will form the starting point for a network of perhaps 1,000 branches outside the home area in four year's time, Mr Muniesa suggests.

Cataluña, too, has ambitious plans for 150 new branches outside Catalonia over the next four years. They will be concentrated in areas of greatest economic growth – Madrid, the Mediterranean coast, and the Balearics.

Accompanying the geographic expansion is product diversification and international acquisitions and co-operation. Cataluña wants to use its network to distribute foreign insurance companies' products in Spain, and is boosting its presence via subsidiaries in fund management, leasing and custodial work.

In July last year La Caixa bought the small Banque pour la Construction et l'Equipment from Paribas of France, and has an option to buy Société de Crédit et de Banque of Monaco. Cataluña, meanwhile, recently signed a co-operation agreement with Cassa di Risparmio di Genova e Imperia, an Italian savings bank.

INSURANCE

Mañana's new meaning

ONLY ONE out of every five heads of household in Spain has a private insurance policy of any kind, whereas just about every Spaniard gambles year round, spending well above the European norm on flutters that range from bingo halls to state lotteries.

The living for today attitude and the gambling addiction has prompted Sweden's Skandia to market an intriguing sales gimmick: policy holders whose pension plan number coincides with the winning state lottery number in the last draw each month pay no more contributions until they retire.

At present Skandia has a 47 per cent share of the active life fund market and it owes its commanding edge over its competitors not to its lottery-linked promotions, although these help, but to an intelligent approach to the peculiar conditions in Spain. The basis of the Swedish company's operation is a 50-50 joint venture called Intercaser that it established in 1980 with Caser, a domestic insurance company that is owned by a 51-strong association of Cajas, the ubiquitous Spanish shareholder savings banks.

The pioneering Skandia decision to work with a domestic partner has been imitated by a bevy of later multinational arrivals such as West Germany's Allianz. The company has entered into an agreement with Banco Popular, Italy's Generali which works with the Spanish subsidiary of BNP, and Britain's Eagle Star Holdings, the Mercury Asset Management Group has started operations with Tabacalera, the former Spanish Tobacco monopoly and with Banco Santander de Negocios respectively.

The distinguishing feature of the Skandia operation, however, is its use of the Cajas network. Intercaser's head office in Madrid is computer-linked to 800 Caja branches up and down the country and the insurance company's sales force is, in effect, the small town savings bank employee who has a thorough understanding of and access to the potential client who has begun to worry about a future nest egg.

Intercaser, itself, has just 49 employees but its sophisticated technology allows it to run 130,000 personal pension plans, worth some Pta145bn, that the company has on its books every year. Colombian-born and Skandia-trained Mr Camilo Pieschacon, who set up the joint venture and remains its chief executive, reckons that significant and sustained growth is on line.

Overall, the Cajas have 12 million deposit accounts and Mr Pieschacon wants 10 per cent of these tapped for active life funds by Intercaser. The target would increase the company's present volume nearly tenfold and bring 1.2 million policy holders under its wing.

Such rapid growth ambitions over the next five years are not misplaced. There is consensus that times are ripe for a change. Over the past three years disposable income in Spain has increased sharply and, along with new wealth, Spaniards are in the process of acquiring a financial sophistication and culture that they formerly lacked.

The new awareness brought on by the economic climate is, in the meantime, stimulated by the government: the latter is determined to shore up the state social security system by sharing the burden as much as possible with the private sector. The recent pension fund legislation, for all its shortcomings, is clear evidence that major changes are in process in the Spanish insurance sector.

Mañana may soon be understood to mean providing for the future rather than delaying a decision for the morrow.

Tom Burns

PENSION FUNDS

Teething troubles

SPAIN'S PENSION fund law, which came into effect in January, has very laudable aims. It seeks both to bring order into a sector which was, by common consent, chaotic, and to bridge the growing gap between the expectations and the reality of state pensions.

More than useful spin-offs of the new legislation were, naturally, the creation of a vigorous long-term finance instrument, something that is very necessary given the narrow base of Spain's borrowing profile, and the injection of solid capital into Spanish equities.

The problem is that big enterprises have shown themselves so far to be less than enchanted with the new legislative umbrella. This is despite the first time ever tax deductible breaks that are included in the law. Pension funds managers are, for their part, openly hostile to the government's initiative.

Mr Guillermo Kessler, the senior treasury official responsible for the insurance sector, admits that there is room for criticism but he is adamant that the new law requires a period of stability and that there will be "no modifications" in the short term.

Although he concedes that since the begining of the year not a single major company pension scheme, with a minimum Pta100m share base as stipulated by the law, has come forward to register its operations with the treasury, Mr Kessler claims it is "still too early to draw conclusions". Fund managers, however, say that a new look at the law, as far as it affects company pension plans, is well nigh inevitable.

The arguments that surround the new law's growing pains should not, however, obscure its major implications.

Essentially, what the law does is to establish a series of tax breaks for those who enter a company pension scheme and it also creates a framework to regulate the investment of the resulting funds. If 35 per cent of the total official working population takes advantage of the legislation, then the pension funds would be managing an estimated Pta1.8bn in their first year.

The sum, which represented one-a-half times the life insurance industry's total premium income in Spain in 1987, is a windfall for the banks, since they are well placed to manage the new business through their pension fund subsidiaries. The sum also represents a considerable fillip for Spain's capital markets: if just one-third of it were invested in equities, this income injection would amount to 6 per cent of the Madrid market's total capitalisation.

It is, in the meantime, no mere coincidence that the launching of the new law has been accompanied by the appearance of 10-year treasury bonds, a long-term financial instrument that is rare in Spain.

> **'The law is simply too socialist,' according to the chief executive of a bank's pension fund management subsidiary**

The tax breaks, which are weighted to the lower income groups, are generous – "they are as attractive as they can possibly be," says Mr Kessler – and the investment guidelines and restrictions are sensible.

Contributions will be fully deductible from taxable personal income up to Pta500,000 annually per family unit and a further Pta250,000 will be 15 per cent deductible. Of the resulting assets, 90 per cent must be invested in securities, mortgage loans, real estate and bank deposits.

Restrictions include a 15 per cent sub-limit on investment in bank deposits, a maximum of 5 per cent of outstanding shares in the case of investment in a company, and a maximum of 10 per cent of the fund's assets when it invests in securities issued by a single group of companies. Real estate must be revalued, in line with official valuation tables, every five years.

From the point of view of employers and of the fund managers, the law is objected to on three major fronts. The most important one is that the legislation takes the existing company pension schemes, which appeared on company balance sheets, out of the jurisdiction of the financial director and put them into the hands of a controlling committee representing the policy holders. The fear is that the controlling committees will become the domain of the trade unions.

There is a political component underlying this objection: "The law is simply too socialist," according to the chief executive of a bank's pension fund management subsidiary. But there is also real resentment among employers over the prospect of contributing to funds that they will not control, although they will, in the last resort, be responsible for their solvency.

Employers also object strongly to the law's insistence that policies in a company pension plan should be "non-discriminatory" and also "portable".

The law, in their view, strips a pension scheme of its fringe benefit incentive value because it prevents an employer from rewarding individual employees. The law is also seen as encouraging job mobility, which is something certain employers, given the current strong demand for qualified personnel and the escalating salaries, would rather discourage.

The policy holders themselves could, in the meantime, add a separate objection and this is that under the law savings are non-liquid, meaning that assets can only be realised on retirement, disablement or death.

The situation at present is that fund managers are advising companies to avoid in-house pension schemes and to offer, instead, salary adjustments to compensate for the loss of tax deductions. Employees would be enabled, therefore, either to apply for an individual pension plan or to enter what the new law terms "associative pensions schemes".

Associations that qualify for the latter scheme, according to the law, can be professional bodies, trade unions, neighbourhood groups, or even members of a football club. The pension fund market could, at least in these early stages of the law's life, be reduced to such schemes. The full effects of the legislation could take some time to make themselves felt.

Tom Burns

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INSIDE

Brunel's ambitions run into problems

Unnoticed and unexplained, an ambitious plan for Brunei citizens to share in the ownership of local companies has slithered into apparent failure, in the process underlining the problems which can face outsiders doing business with the oil-rich sultanate. Chris Sherwell tells the story of Qaf, the company at the heart of the plan. Page 28

Slim pickings for greens

A host of stocks with green labels have been "discovered" in the UK this year, but the European mainland, where popular environmentalism is often far more advanced, has yet to offer such rich investment pickings. Alison Maitland identifies some shining examples of environmental investments and looks at the difficulties of sorting the wood from the trees in a fast-growing area. Page 50

An awful lot of chaos in Brazil

Never in its tortuous history has Brazil's sugar and alcohol industry suffered such chaotic mismanagement as it has in recent months. Hot on the heels of the resignation of the president of the country's Sugar and Alcohol Institute following reports of corruption, came the market troubles caused by the Government's dithering over sugar export policy. John Barham reports. Page 36

Harriage in the heavens

Belgian airline Sabena's lengthy spell in the marriage market has ended with it finding not one partner but two. David Buchan reports on the deal under which British Airways and KLM each plan to take a 20 per cent stake in a new Sabena subsidiary called Sabena World Airlines. Page 30

Man with some explaining to do

Crosfield Electronics is used to announcing nothing but good news at its annual press conferences. Until recently it has been the fastest growing and most profitable division of De La Rue, the security printer and manufacturer of sophisticated printing technology. But tomorrow Mr Jim Salmon, Crosfield's managing director and deputy chief executive of De La Rue (left), will face some hard questions about the division's latest figures, especially the big drop in profits. Page 37

Market Statistics

Companies in this section

Chief price changes yesterday

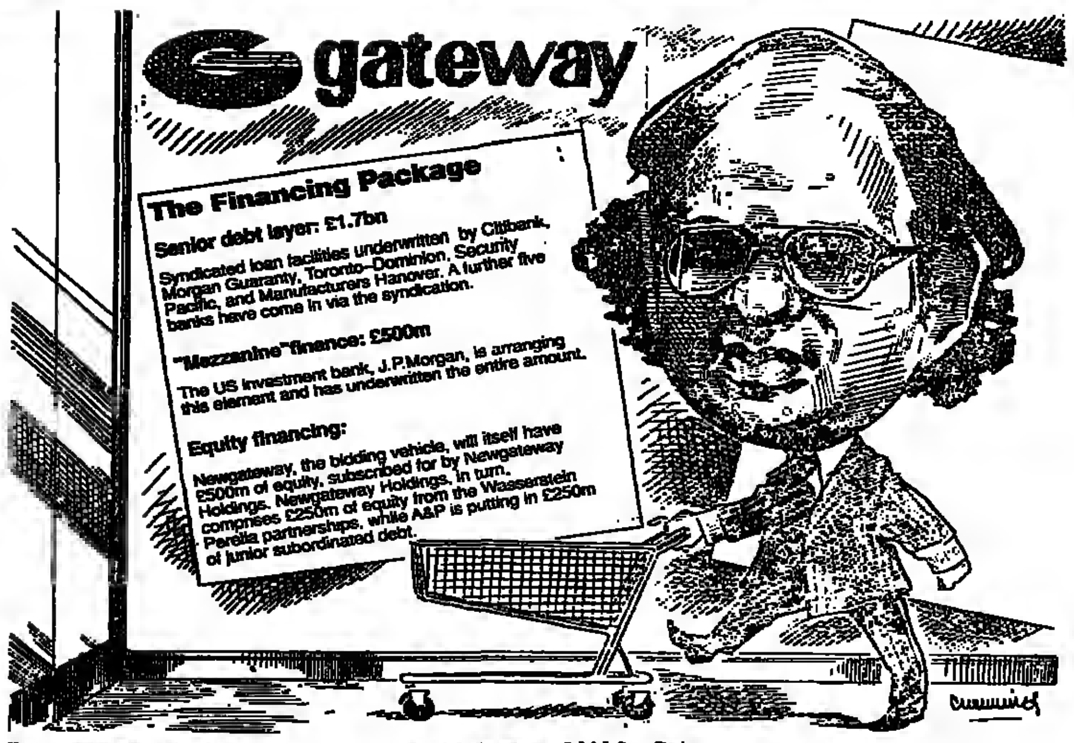
FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Daimler	701	+	7.1	Esso	545	+	42
Lufthansa	168.5	+	4.5	Raffinage	177.8	+	11.5
Mannesmann	259	+	4	SGE	269	+	15.9
Siemens	577	+	13.5	Strafor	1150	+	82.5
Falls				**Falls**			
D'sche-Babcock	199.5	–	3.5	Interball	463	–	38.5
Karstadt	559	–	6	Locabail	676	–	18.5
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
AMR	64	+	2	Maruzen Showa	1320	+	120
Harcourt Brace	13⅞	+	3¼	Nippon Type	1330	+	100
Lin B'casting	125¾	+	2¾	Nissan Diesel	1140	+	90
McCaw Cellular	41¾	+	1	Raito Kogyo	1510	+	130
UAL	135	+	7⅛	**Falls**			
Falls				Ishizuka Glass	1460	–	140
NWA	113⅝	–	⅜	Ryoden Trading	1070	–	70

New York prices at 12.30

LONDON (Pence)							
Rises				Lovell (YJ)	254	+	27
Barclays	457	+	14	Meyer	403	+	19
Berisford Int	157	+	5	RMC	769	+	15
Blue Circle	550	+	7	Racham	737	+	19
Body Shop	703	+	18	Scott & New	333	+	10
Caird	548	+	29	Sun Life	1018	+	20
City Gate	360	+	43	**Falls**			
Gateway	228	+	8	Beazi	136	–	6
Glaxo	1396	+	23	Hambro C'wide	32	–	4
Great Portland	393	+	12	Hillsdown	268	–	7
Greenall Whit	301	+	13	Lowe (RH)	90	–	22
ICI	1286	+	11	Tiphook	448	–	8
Inchcape	255	+	9				
Laing Props	540	+	12				

Wall St goes on £2bn shopping expedition

Nikki Tait and Anatole Kaletsky on the Gateway bid



Bruce Wasserstein: breaking new ground with leveraged bid for Gateway

Houdini would have been impressed. As last-minute escape routes go, yesterday's embrace by UK food retailer Gateway of a £2bn ($3.1bn) leveraged bid from Wasserstein Perella and A & P could not have been cut much finer.

It arrived at 10 o'clock on Monday night – the product of extensive midnight oil-burning in a host of US and UK investment banks – only 39 hours before the rival leveraged offer from Isosceles, a newly-formed company headed by former accountant David Smith, and advised by S.G. Warburg, was due to reach its final close.

Although Wasserstein maintains that it first looked at Gateway when the Isosceles bid arrived in April, the pace picked up only over the past seven days. When the attempts by A & P, one of the leading US food retailing groups, to mount a bid jointly with US leveraged buy-out specialists, Kohlberg Kravis Roberts, broke down, Wasserstein's potential role expanded.

The result – two rival leveraged financing packages battling for control of a major UK company – is a sight which few might have expected to see a couple of years ago. Ahead of the 1987 stockmarket crash, the number of leveraged bids in the UK could be counted on the fingers of one hand. Yet, over the past year, leverage – at least in the hostile bid arena – has been the predominant form of finance.

That said, the latest Gateway bid breaks significant new ground, in that this is the first time a US leverage fund has been heavily involved in a major British bid. Will it be the forerunner of a wave of American finance in British and Continental European bids?

The deal also raises the question of why the combined forces of Wasserstein and A & P reckon there is more value to be had in Gateway than Isosceles has suggested to date.

In terms of funding, the two schemes differ in that the WP/A & P package has a slightly lower input of senior debt – £1.7bn against £1.9bn – but a substantially higher amount of money committed at the riskier levels of equity or mezzanine (which falls somewhere between debt and equity.) This seems to imply that the providers – at the sharpest end, the WP partnerships and A & P – can either see additional returns, or are prepared to accept lower payback, than Isosceles' backers.

A & P is clearly hoping that Mr James Wood, its chief executive, can achieve for the British group what he has already done in the US. Mr Wood will become chief executive of Gateway and Mr Alec Monk, who remains chairman, will report to him.

The US company, which was at one time the largest supermarket chain in the world but fell on hard times in the 1970s, has achieved an impressive turnround since 1980, when West Germany's Tengelmann Group acquired 52 per cent ownership for about $140m. Tengelmann secured the services of Mr Wood, who had been running Sir James Goldsmith's Grand Union supermarkets group, by offered him personal incentives equivalent to about five per cent of A & P's equity. The German group then sat back and watched the value of its investment grow sevenfold as Mr Wood turnd a $43m loss in 1980 into a $127m profit in 1988 by cutting out unprofitable operations, bringing expenses under control and expanding aggressively through acquisitions.

However, UK analysts remain to be convinced that miracles can be wrought at Gateway: "No doubt A & P can accelerate the changes, but the fact remains that Gateway is the weakest player in an increasing concentrated sector," commented one.

Analysts on Wall Street added that that this deal will provide none of the synergies available in A & P's domestic US mergers, many of which have been designed to increase the group's market share in geographical areas where it was already strong.

"Every acquisition Wood has made in the past has been clearly synergistic," says Mr Comeau. "In this case, though, the only possible synergies might be for Tengelmann trying to expand across Europe, not A & P."

This, in fact, could be the key to A & P's involvement in the Gateway buy-out. By putting up a relatively modest amount of subordinated debt, Tengelmann is effectively acquiring an option on one of the biggest retailing chains in the UK. If the bid turns out to have been overpriced, or the turnround prospects prove poorer than expected, Tengelmann will stand to lose little or nothing and could end up acquiring Gateway on the cheap. If the deal goes well, the German group will be in a position to exercise management control of Gateway and to buy the company in its own time.

For Wasserstein Perella the merits of the buy-out are less obvious. The firm – or at least the investors who have contributed to its buy-out pool – bear the entire risk of the turnround failing. The upside potential of their investment, on the other hand, may be limited not only by the high price they have agreed to pay but also by the management control exercised by A & P and ultimately the Tengelmann Group. It is perhaps significant in this context that Kohlberg Kravis Roberts dropped out of the bidding at the last moment.

Wasserstein Perella's own track record in LBOs is still far too short to draw any clear conclusions about its skill in valuing these deals. So far the company has done only three major LBOs – Pneumo-Abex, an aerospace components manufacture it bought for $1.3bn in partnership with Henley Group; Wickes Companies, a Los Angeles-based conglomerate, acquired for $2.7bn in conjunction with Blackstone Group; and KDI Corp, a relatively small swimming pool firm.

Whatever the outcome, the commercial plans for Gateway of the new bidders certainly differ from those of Isosceles. Isosceles envisaged selling off peripheral parts of Gateway – in particular Herman's, a US sporting goods chain, and the UK Medicare outlets – plus up to 80 superstores, leaving it with some 730 Gateway supermarkets.

The new bidder is extremely cagey about disposals, but Mr Wood is clear that the refocusing will be on a regional basis rather than by store size.

"There's no such thing as a national chain," he suggested, pointing out that even the likes of Sainsbury and Tesco have certain regional biases. Gateway would "retrench into areas where it has strengths."

Mr Wood would not say whether Wellworth, the Northern Ireland chain, Medicare or Herman's would definitely be sold. The only concrete suggestion was that some £700m-£750m could be raised from disposals.

Of course the new bidders are not yet home and dry. Last night Isosceles said only that it was considering its options, although Mr David Smith, chief executive, did add that accepting the A & PWP bid was not one of the subjects discussed.

But an equally intriguing question is whether the Gateway situation is a "one-off", or whether it spells more sustained direct interest by the US investment community in the UK bid forum.

The Gateway situation is undeniably unusual. The company's sizable acquisition programme in the early-1980s provoked serious indigestion, both in terms of the amount of paper issued to fund those deals and in terms of combining the various chains. With a share price which had drifted back to the 145p level in December, institutional disgruntlement was considerable.

That said US involvement in UK mergers and acquisitions has been something of a discernable trend of late. Arbitrageurs from across the Atlantic have been increasingly active, as have aggressive raiders and bidders such as Mr Asher Edelman, Mr Jeffrey Steiner, and (although only "American" for the past decade) Sir James Goldsmith.

One swallow does not make a spring, and no-one expects another bid like this in the near future. But swallows may still be indicative of the way the seasons.

US court freezes bid for Sea Containers

By Andrew Hill in London

A US COURT has frozen the hostile Anglo-Swedish bid for Sea Containers, the ferry and container group.

Tiphook, a UK container rental company, and Stena, the private Swedish ferry operator, are offering $824m for Sea Containers.

Sea Containers also claims that a special meeting on Mondayfor Tiphook shareholders was in contempt of previous court orders.

The Washington DC district court has imposed a preliminary injunction on the bid, replacing previous temporary restraining orders. Judge John Garrett Penn is expected to give his reasons for awarding the injunction shortly.

Sea Containers also wants the judge to reverse the outcome of the extraordinary general meeting two days ago, at which Tiphook shareholders approved a £235m rights issue to fund the group's share of the deal, on the grounds that the meeting infringed the original court orders.

Tiphook and Stena have appealed against this week's ruling and are opposing the contempt claim. They are pressing for a quick hearing, and hope to get the injunction lifted pending the appeal.

But Sea Containers believes the court's action will stop the predators from pursuing their offer indefinitely, enabling Mr James Sherwood, Sea Containers' president, to put together defensive plans for the company at his leisure.

In the light of the latest legal developments, Sea Containers may decide not to send a letter to Tiphook's shareholders, casting doubt on the financing of the deal.

Shares in Sea Containers, which owns Sealink British Ferries, were trading at more than $72 yesterday, the highest level since the bid was launched, in the aftermath of Mr Sherwood's comments earlier in the week.

He has said that recapitalisation or a leveraged buy-out could realise between $70 and $100 per share for investors, against the Stena/Tiphook offer of $50.

Recapitalisation would involve the sale of peripheral assets, which could include Sea Containers' container ships. The group has said it could sell the 12 ships for $120m.

Sea Containers initially objected to Stena's purchase of an 8.2 per cent stake in the group, which was revealed in March and has since been diluted to 7.1 per cent. The group is now attempting to outlaw counterclaims by Stena and Tiphook in the Bermuda courts, on the grounds that they were originally dismissed in Washington.

Three weeks ago, the Bermuda Supreme Court prevented Sea Containers subsidiaries from buying further shares in the parent company before July 3, when there will be a preliminary hearing of the issues. Sea Containers subsidiaries own 21.2 per cent of the group's shares, and Mr Sherwood and directors control a further 7.4 per cent.

Bond reconsiders plan to sell beer interests

By Bruce Jacques in Sydney

MR ALAN BOND, the Australian brewing and media entrepreneur, is considering calling off his complex plan to sell Bond Corporation's beer interests to its associate, Bell Resources.

Mr Bond said demands by the Australian Stock Exchange for two independent reports on the deal and five-year accounts for the company's brewing operations were too onerous and may force him to pull out of the deal.

He told AAP Reuters he had initially planned to complete the transaction by June 30, but was now considering an alternative proposal to sell all the non-brewing assets out of Bond Corporation, turning it – instead of Bell – into a pure brewing stock.

Analysts, however, discounted the suggestion, contending that the brewing sale to Bell was essential to restructure the company's debt and placate its bankers and shareholders.

Mr Bond also confirmed media reports that he is attempting to swap his A$800m ($590m) investment in Lonrho, the UK conglomerate, in return for a large stake in Stroh, the US brewer.

Mr Bond said be has discussed the Lonrho-Stroh proposal with his advisers, Morgan Stanley. However, in London on Monday Lonrho said that it had rejected this proposal and described it as obscure.

Lonrho has obtained an injunction barring Mr Bond from disposing of his holding without approval. This will be tested in the courts on July 3.

Mr Bond also said he was interested in lifting his 33.7 per cent interest in British Satellite Broadcasting (BSB), the satellite television company.

"If we are going to stay in, I want a bigger say," he said. "We have been approached to sell our stake, but we'd rather stay in if we can win more influence."

Mr Bond said his group had much to offer BSB because of its experience in running an Australian satellite broadcasting service, but be was concerned about over-optimistic targets and thought the launch of satellite television services to British subscribers could be delayed until next year.

He said he had not discussed his desire for a larger stake with his BSB partners, which include Granada, Pearson and Reed International.

Minorco petitions US court

MINORCO, the South African-controlled investment group, is leaving nothing to chance in its efforts to end American litigation which has prevented it from taking over full control of Consolidated Gold Fields, the British-based mining company.

It has now petitioned the US Supreme Court, asking it to consider whether a US court should have jurisdiction over a private civil action brought against Minorco by Gold Fields.

The issue is separate from an anti-trust case brought by Gold Fields and its associate, Newmont Mining, which Minorco is contesting.

Jovanovich to sell theme parks

By James Buchan in New York

MR WILLIAM JOVANOVICH, who built the Harcourt Brace publishing house into a billion-dollar diversified company, yesterday responded to pressure from bankers and Wall Street and agreed to sell his prized set of theme parks to pay off debt.

But the sale of the six parks, which include the well-known Sea World aquariums and could be worth $1.5bn may have divided the boardroom at Harcourt Brace Jovanovich, as the company is now known. In an edgy and convoluted statement, Harcourt Brace said yesterday that Mr Ralph Caulo, who took over as chief executive early this year, was ready to leave the company to run an independent parks company.

Mr Robert Dunlap, an analyst at Brown Brothers Harriman in New York, said: "There would appear to have been a difference of opinion." But other analysts doubted there was a rift between the two men. Harcourt Brace could not be reached for additional comment.

In its statement, Harcourt Brace said that after talks between Mr Caulo and Mr Jovanovich, who ran Harcourt Brace for 34 years and remains its chairman, it had decided to sell all its theme parks and additional land holdings to concentrate on its publishing business, which is the largest US textbook publisher, and an insurance division.

The theme parks, which comprise Sea Worlds in Florida, Texas, Ohio and California, and the Cypress Gardens and Boardwalk and Baseball parks in Florida, enjoyed revenues of $400.9m in the year to March, with operating profits of $62.3m.

The announcement sent Harcourt Brace's stock soaring on Wall Street, rising nearly 40 per cent in heavy trading by noon, or by $4 to $14⅛. Investors have been wary of Harcourt Brace's stock up to now because of the company's $2.7bn in debt, which makes it one of the most highly leveraged large corporations in the US. Mr Jovanovich, a distinguished editor and ferocious businessman, took on the crushing debt burden to thwart a takeover bid by the UK's Mr Robert Maxwell two years ago.

As recently as late last year, Mr Jovanovich rejected calls on Wall Street to sell the theme parks, instead buying time for the whole company by refinancing $400m in debt.

Mr Dunlap said: "They had negative net worth of $1.5bn at the end of March. You don't have to be a rocket scientist to see they have to do something about their balance sheet. I thought they should have sold the parks two years ago."

Mrs Elizabeth Bramwell, an analyst at Gabelli Securities, and Mr Joseph Frazzano of Oppenheimer believe the business – which is the world's largest after the Disney parks – could provide proceeds of $1.5bn. "It's a brilliant restructuring," Mr Frazzano said. "The stock will be at $30 in two years if they sell."

INTERNATIONAL COMPANIES AND FINANCE

Brunei dream fades into a shadow

Chris Sherwell on the difficulties of a once promising enterprise

Unnoticed and unexplained, an ambitious plan for Brunei citizens to share in the ownership of local companies has slithered into apparent failure. In the process, it has underlined the problems which can face outsiders doing business with the oil-rich sultanate.

The story of Qaf, the company at the heart of the plan, goes back five years. Its key character is Mr Ahmad Iqbal Saddique, a 46-year-old Pakistani-born Moslem based in Singapore. Also involved is Prince Mohamad Bolkiah, younger brother of Sultan Hassanal Bolkiah, widely dubbed the world's richest man.

Qaf, an Islamic name for a mythical mountain, was the vehicle for the share ownership plan, and it secured a listing in Singapore in 1984 through the reverse takeover of a local food distribution group called Ben and Co.

Brunei had become independent from Britain earlier that year, and Qaf was intended to be its first home-grown conglomerate. As part of the grand scheme, it had already acquired in quick succession controlling stakes in strategically placed foreign groups which provided Brunei with its newspapers, food, air conditioning, offshore oil services and industrial gases.

Apart from Prince Mohamad, the company's other key backer was Pengiran Anak Jaafar, the brother of Prince Mohamad's wife. He became Qaf's chairman. But it was Mr Saddique who advised them, and who put Qaf's deals together. He had known the royal family from an earlier lucrative oil marketing operation he ran which ate into Brunei Shell's oil revenues.

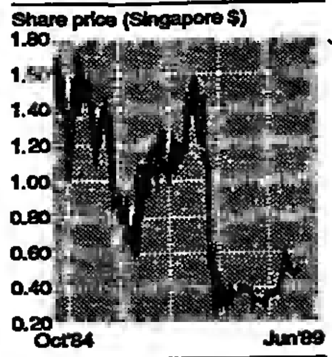
To investors, Qaf was interesting not just for its royal connection but for its share ownership plan. Ben's prospectus spelled out a promise, "as part of efforts to promote participation by nationals of Brunei in the equity of companies operating in Brunei," to offer 14 per cent of the group to "selected Brunei institutions" at the same price they were paying, S$0.79 per share.

This offer was never made. Indeed, it is now widely believed that squabbles within the royal family killed the plan before it could get off the ground. Since then, the group has plunged into loss, Mr Saddique has fallen out with the Prince and Pengiran Jaafar, and the shareholdings of the royal backers have been heavily diluted by two rights issues. At least one bank – Hongkong and Shanghai Banking Corporation – has unrepaid loans on its books.

A cursory glance would suggest the group's problems have been largely beyond its control. In November 1985, for example,

QAF

Share price (Singapore $)



the crash of Singapore's Pan-Electric group hit the local stock market and the Singapore economy contracted. Qaf was one of many to suffer.

A year later, the Brunei Government suddenly closed National Bank of Brunei, the cornerstone of a vast empire built up by Tan Sri Khoo Teck Puat, a Singapore-based businessman. Qaf was one group to suffer when worried banks pulled Bruneian credit lines.

Then came the October 1987 stock market crash, which hit Singapore as elsewhere.

But, arguably Qaf's troubles stem as much from its own internal problems. In a seminal development shortly after Qaf was listed in late 1984, a letter was sent to the Brunei Investment Agency, the key investment institution in the sultanate, formally offering it the 14 per cent stake.

It met an unexpectedly sharp response, in the form of a Brunei Government public announcement. Any involvement by members of the royal family in any commercial company, it said, was in their own personal interest and had no connection with the Government.

Some believe the rejection sprang from a belated discovery of the share ownership plan by the Sultan. Others suggest it was a capricious change of mind on his part. Both theories assume irreconcilable differences between the Sultan and the Prince at the time.

Whatever the precise reason, what looked initially like a temporary local difficulty for Qaf turned out to be devastating, since it meant Qaf in effect had fallen out of favour.

Mr Saddique, to keep the group going, started trying to build a different sort of business, based more on Singapore. Qaf plunged into numerous transactions, but bankers say that instead of offsetting the group's problems, they compounded them. Even Mr Saddique acknowledges that he is more of a dealmaker than a professional manager.

The consequences of Qaf's changed circumstances were not appreciated by the group's small shareholders, many of whom still presumed Qaf gave them exposure to the newly independent country's wealth and development.

As Qaf's business in Brunei started going downhill, an attributable profit of S$11m (US$5.6m) in the year to March 1986 became a loss of S$11m a year later. A two-for-three rights issue at 60 cents per share followed, which saw Prince Mohamad's stake in the group diluted.

In 1987 a new managing director, Mr John Richardson, was brought in from Hong Kong, largely as a figurehead. So were some new Hong Kong-based Indonesian investors headed by Mr Wong Fong Fui. But, by March 1988, a disgruntled Mr Richardson had left, later working for Australia's Mr Alan Bond in London, while Qaf's loss had mounted to S$31m.

Another rights issue became unavoidable, this time on a one-for-two basis at 40 cents. It reduced Prince Mohamad's stake to around 23 per cent, left the Indonesian investors with 15 per cent and introduced a new shareholders' group, Singapore's UIC group, which picked up 18 per cent.

Some 4½ years after listing, the reconstituted Qaf may now be turning the corner. But it is a pale shadow of its former self. Mr Saddique has reached the point where he has launched a legal action against Pengiran Jaafar and is arguing with the Prince.

His action against Pengiran Jaafar springs from a personal loan he says he arranged for Pengiran Jaafar in order to take up equity in Qaf.

Back in 1984, Pengiran Jaafar had, with Mr Saddique's help, borrowed money for his equity share in the company which would control Qaf. Together Pengiran Jaafar, Prince Mohamad and Mr Saddique had also borrowed S$24.5m for three months from Hongkong Bank in order to move from 51 per cent of Qaf to 65 per cent.

As for the Hongkong Bank borrowing, the three assumed – wrongly as it turned out – that 14 per cent would be bought out by "Bruneian institutions." The bank has still not been repaid, although the amount has been reduced significantly since Mr Saddique sold his shares in Qaf in 1987.

One follower of this sorry tale, trying to sum up the group's early years, describes Qaf as Brunei's first corporate baby. He says it was orphaned shortly after its birth, and had to be fostered into a childhood weakling with great difficulty. It then tried to walk before it could crawl and run before it could walk.

If Qaf is lucky enough to reach adolescence, it will still not reflect its parents' hopes. Indeed, the story of Qaf is part of a dispiriting pattern about business in Brunei. Like Tan Sri Khoo and other outsiders, Mr Saddique has learned the hard way how difficult it can be to forge sensible business links with Brunei.

Nippondenso in US joint venture talks with Bosch

By Kevin Done, Motor Industry Correspondent

BOSCH OF West Germany and Nippondenso of Japan, two of the world's largest automotive components suppliers, are negotiating a joint venture in the US for the production of pumps for petrol engine injection systems.

Bosch confirmed yesterday that discussions were under way, but refused to give any more details of the project. The deal is expected to be finalised in July or August.

The two companies are already linked in Japan, where Nippondenso manufactures petrol injection systems under licence from Bosch.

Bosch holds a 6.1 per cent stake in Nippondenso, which is a leading member of the Toyota "family" of components suppliers. Toyota itself controls directly 23.3 per cent of the Nippondenso equity but there are additional crossholdings through other Toyota associates such as the Toyota Automatic Loom works.

Nippondenso also manufactures Bosch anti-lock braking systems (ABS) under licence.

It is understood that the joint venture planned with Nippondenso in the US is seen by Bosch as a way of breaking into the market for supplying components to the so-called Japanese transplants, the rapidly expanding vehicle production base established by Japanese vehicle makers in the US.

Bosch is already manufacturing petrol and diesel injection systems in the US and is starting local production this year in the US of anti-lock braking systems at plants in Charleston and Anderson, South Carolina. It will have an initial capacity for producing 450,000 systems a year.

The planned Bosch/Nippondenso joint venture in the US is one of the latest moves in the rapid globalisation of the automotive components sector. Last week Nippondenso announced a joint venture with Valeo of France to make components for electronic ignition systems in Spain.

Hooker shares plunge after debt proposals

By Bruce Jacques in Sydney

SHARES IN Hooker Corporation, the diversified Australian property group, fell to a new five-year low today in violent reaction to yesterday's admission of serious liquidity problems and proposals for a debt moratorium.

The shares dipped from 99 cents to 64 cents on turnover of about 1.5m units, a fall of 70 per cent on levels in February this year and more than 90 per cent on the company's peak before the 1987 share crash.

The market interpreted last night's moves by directors as tantamount to placing the company in voluntary liquidation. Directors have appointed a prominent company receiver, Mr Richard Grellman of Peat Marwick Hungerfords, as financial adviser. Mr Grellman said today his main responsibilities would be to prepare asset disposals, advise on operational matters and maintain a close working relationship with Hooker's lenders.

Hooker is scheduled to hold a creditors' meeting today to discuss a moratorium proposal which would guarantee to leave debt funding in place for at least a year.

Mr Grellman said his appointment showed the Hooker board's determination to restore the company to financial stability through the controlled sale of assets. The company has pledged to sell most non-core assets, including its ambitious retail developments in the US.

Valeo buys into Transturk units

By Jim Bodgener in Ankara

VALEO, the French car parts manufacturer, has bought 51 per cent of two subsidiaries of Transturk Holding, Bursa-based Fren Debriyaj and Istanbul-based Transturk Otomotiv.

The price has not been disclosed, but Valeo has undertaken as part of the transaction to invest TL6bn ($2.8m) to expand production and introduce know-how, new technology and marketing support.

Valeo decided to invest in Turkey to take advantage of its cheap labour, company officials said. Fren-Debriyaj produces braking systems, under licence from Bendix, and clutches, under licence from Valeo, with a turnover of TL40bn ($19.3m).

INTERNATIONAL COMPANIES AND FINANCE

Lotus begins shipments of much-delayed spreadsheet

By Louise Kehoe in San Francisco

AFTER 18 months of delays, Lotus Development, the leading US personal computer software publisher, has begun shipments of "Release 3," a new version of the best-selling Lotus 1-2-3 spreadsheet program.

Mr Jim P. Manzi, the company's 37-year-old chairman, made the announcement at Lotus' annual meeting in Boston yesterday.

The embarrassing delays have damaged Lotus' credibility and allowed competitors to gain market share at Lotus' expense.

The new program is seen as critical to Lotus' ability to retain its market leadership.

"We have come through a very tough period, and I believe we have proved our mettle," said Mr Manzi yesterday as the company showed a television transmission from its manufacturing centre in Cambridge, Massachusetts with boxes of Release 3 rolling off an assembly line and being packed for shipment to customers.

A principle feature of the new program is the ability to display data in three dimensions rather than the usual two-dimensional spreadsheet grids.

This, for example, might allow a sales manager to analyse sales of a product in several different regions over a specified period of time.

Although generally well received, Lotus' new product introduction comes as concerns are growing about a broad slowdown in the US personal computer market.

Software distributors are overstocked, and have cut back orders, according to industry executives.

Michel François-Poncet

Paribas forecasts 20% rise

By George Graham in Paris

PARIBAS, the French investment banking group, expects a 20 per cent increase in net profits this year to at least FFr3.2bn ($478m).

Mr Michel François-Poncet, chairman, told financial analysts in Paris yesterday that net earnings per share should rise by at least 15 per cent to FFr57, with no dilution whether or not the group's outstanding warrants are exercised this summer.

The group estimates that its net asset value, calculated to take account of unrealised capital gains, amounted to FFr36.2bn or FFr670 per share by the end of May, already up 10 per cent from the end of 1988 and 46 per cent from the end of 1987.

Mr François-Poncet said Paribas intended to develop an open group of shareholders. At the moment, 26 leading institutions, 15 of them French and 11 foreign, held 45 per cent of the company's capital, he said, adding that other investors might join this circle, including the Ferruzzi group from Italy, which announced yesterday that it has taken a 1.3 per cent stake in Paribas.

Mr François-Poncet said that Paribas did not plan to protect its capital from hostile takeover by limiting voting rights, as Compagnie Générale d'Electricité (CGE), another French group privatised by the last Government, intends to do.

Paribas's Netherlands subsidiary, completely restructured over the last six months, should return a small profit after FFr83.5m of losses in 1988, while the German subsidiary should also produce a modest profit.

Tyson lifts Holly Farms bid

By Deborah Hargreaves in Chicago

TYSON FOODS has increased its bid for its fellow US chicken processor, Holly Farms, to $70 a share, or a total of $1.29bn.

Tyson's higher offer is the latest salvo in an eight-month battle to acquire Holly and follows Holly's recent auction of itself, where ConAgra, the big flour milling company, agreed a stock-swap deal valued at around $1.26bn.

Holly's shareholders are due to vote at a special meeting in late July on the ConAgra merger which Holly's board has accepted. However, the stockholders rejected a previous deal between Holly and ConAgra in favour of an all-cash bid from Tyson.

Tyson says it has funding arranged for the tender offer, although the purchase would load the company with debt. Tyson has appealed to a court in Delaware to remove Holly's poison pill measure.

Last week, a Delaware judge refused to stop ConAgra's merger agreement, even though he conceded that Holly's board had been unfair to Tyson in its auction. Holly's board has 10 days to respond to Tyson's bid, but, like previous hostile offers from Tyson, it is not expected to accept. Tyson says it is prepared to challenge Holly in court again.

La Générale sets price of share sale at BFr3,000

By David Buchan in Brussels

SOCIETE Générale de Belgique, the holding company, announced yesterday that it will price the public sale of 7m of its shares later this month at BFr3,000 each, after a three-for-two stock split.

The price is at the lower end of the BFr2,900 to BFr3,200 range announced by La Générale last week, and is clearly designed to stimulate individual investors' interest in the giant holding company, whose ownership ended almost entirely in the hands of big institutions in last year's fight for control of the company.

The sale will put on the market the 11 per cent stake in La Générale held by Sodinvest which is owned jointly by Compagnie Financière de Suez, the French investment bank, and the Belgian AG insurance group.

They will still retain majority ownership of La Générale, but will be able to ease their financial position with the BFr21bn ($507m) proceeds from the sale.

Viscount Etienne Davignon, La Générale president, stressed yesterday to shareholders at the company's annual general meeting, the stable nature of the majority holding by the Suez-AG shareholders and their willingness not to interfere in the day-to-day running of the company.

S-E Banken 12% ahead

By David Bartal in Stockholm

S-E BANKEN, Sweden's leading commercial bank, reported a 12.3 per cent rise in parent company operating profit to SKr1.13bn ($169.4m) for the first four months.

The banking group as a whole, which includes international branches, reported an 11.9 per cent profit boost to SKr1.56bn.

Interest income for the group rose by 7 per cent to SKr2.1bn. Loans in Swedish krone increased by 11 per cent to SKr65.5bn, while loans in foreign currencies climbed by 48 per cent to SKr88.6bn.

The marked increase in currency loans was the main reason for a 28 per cent increase in volume, but margins on interest income have been reduced, the bank said.

Group costs increased by 13 per cent to SKr1.8bn. Profit per share in S-E Banken increased to SKr9.46 compared with SKr8.18 a year earlier.

The bank forecast profits in 1989 would exceed 1988 group operating profit of SKr4.67bn.

Stet to pay L28.9bn for 40% of GEIS Italian unit

By Alan Friedman in Milan

STET, THE Italian telecommunications company that is controlled by the IRI state holding group, is paying L28.9bn ($20.1m) to buy 40 per cent of the Italian subsidiary of GE Information Services (GEIS), the value-added network services arm of General Electric of the US.

The share deal is part of a joint venture that will call for the US group to offer technology and know-how in return for expanded access to the Italian market.

Although much smaller in scale than the recently announced alliance between STET and American Telephone & Telegraph (AT&T) in the telecommunications sector, the deal marks the second time this month that the Italian state company has chosen an American corporate partner in order to develop its technology and sales.

The Italian subsidiary of GEIS had 1988 turnover of L44bn and the price paid by STET for its 40 per cent stake places a theoretical value on GEIS Italia of more than ten times last year's net earnings of L7bn.

The alliance with STET is the third international joint venture for GEIS, following previous agreements with ICL in the UK and Dentsu in Japan. At the operative level in Italy, GEIS will co-operate with SEAT, STET's telephone directory and value-added information services division.

Mr James McNerney, president of GEIS, said he saw the Italian venture as part of his company's strategy ahead of the opening of Europe's single market in 1992. Mr McNerney forecast "a very aggressive" investment programme that will include the establishment of a new "supercentre" data processing facility in Italy.

Mr Giuliano Graziosi, managing director of STET, said the alliance with GEIS was part of his overall strategy of developing value-added and highly specialised services. Mr Graziosi also pointed out that one of the reasons for the accord was that for STET the cost of investing on its own in the kind of software needed in the value-added sector would have been prohibitive.

GEIS has been present in Italy since 1969.

LIN Broadcasting rejects offer

By Karen Zagor in New York

LIN BROADCASTING, a small company with valuable cellular telephone licences in five of the 10 biggest US cities, yesterday rejected a takeover bid of $120 a share, worth $5.85bn, from McCaw Cellular Communications, the largest independent US cellular telephone company.

The stage may now be set for a full auction of LIN, which has entered discussions with several possible suitors.

McCaw's bid was turned down on the grounds that it undervalued the New York-based company.

LIN's financial adviser, Wasserstein Perella, said that the offer was not in the best interests of the company's shareholders, other than McCaw and its affiliates. McCaw is partly owned by the UK telephone company British Telecom.

Shares in LIN jumped $2¾ to $125¼ at mid-day in national over-the-counter trading in the US.

In a filing with the SEC yesterday, LIN said it was meeting other parties which had previously expressed an interest in acquiring it. The company would not name the potential bidders, but these are thought to include GTE, other phone companies and several regional Bell operating companies, including Pacific Telesis, Bell South, Southwestern Bell and US West.

LIN said it is considering all alternatives including remaining independent, recapitalising or selling the company.

It added that it would continue its previously announced spin-off of its seven television stations, which are worth about $1bn.

A special dividend to stockholders is also being considered, as is the acquisition of other cellular assets, perhaps on a tax-free basis.

Piaggio and Kolbenschmid in venture

By John Wyles in Rome

ITALY'S Piaggio group of motor scooter fame has joined forces with West Germany's Kolbenschmid to set up a vehicle components joint venture with manufacturing bases in Italy and France.

The agreement will bring together Piaggio's subsidiary, Piaggio Adriatica, which specialises in water pumps, with Société Mosellane de Mecanique, which Kolbenschmid recently acquired from Renault. The new company's plants are based at Thionville in France and Atessa in Italy, jointly employing 750 people with L145bn ($101m) turnover forecast for 1990.

The two joint owners aim to broaden the product range from water and oil pumps to include other engine components. Kolbenschmid, a subsidiary of Metalgesellschaft, the West German metals and mining group, manufactures pistons, engine blocks and steering mechanisms. It had DM1.1bn ($556m) total sales last year.

The agreement is a key element in the internationalisation strategy prescribed for Piaggio by Mr Gustavo Denegri, the group's president, since he took over from Mr Umberto Agnelli a year ago. Piaggio's 1988 turnover was L1,200bn. It is committing assets valued at L85bn to the joint venture.

Vectra launch helps Opel boost profit 5.3%

By Haig Simonian in Rüsselsheim

ADAM OPEL, the West German subsidiary of General Motors of the US, has reinforced its return to profitability first indicated in 1987 with a rise in turnover, unit sales and profits for 1988 and an up-beat forecast for the current year.

Group profits jumped 5.3 per cent to DM504.8m ($255.8m) in 1988, while sales increased 1.6 per cent to DM17.5bn. Production, including partly-assembled models, rose by 1 per cent to 1.12m units.

Earnings are likely to be even stronger this year, said Mr Louis Hughes, Opel's chief executive since April 1. Refusing to give any specific profits forecasts, he said: "In any event, they will be higher, how much higher we don't know."

However, Opel's earnings surge in the past two years means it has now used up its accumulated tax losses. It is therefore likely to incur German corporate tax this year, and may also pay a dividend to its parent.

Indeed, the strength of last year's recovery is partly hidden by a DM289m charge for additional pension contributions, which had previously been met by a charitable foundation linked to the Opel family.

A further charge of around DM80m to DM90m will be made this year for the pensions to be fully-funded.

Thereafter, the additional pension burden is likely to cost the group around DM115m a year, based on present actuarial estimates.

Much of last year's sales and earnings boost came from the new mid-sized Vectra model (known as the Cavalier in the UK), which was introduced in Germany in October.

The company produced 50,730 Vectras, along with almost 90,000 of its predecessor last year, and plans to make about 400,000 Vectras in 1989.

Heavy demand means delivery dates for Vectras are now around Christmas. Opel is trying to meet the gap by additional shifts, which should allow an increase from 1,050 to 1,350 vehicles a day.

Sabena's marriage ends months of speculation

By David Buchan in Brussels

AT LAST Sabena has found not one co-pilot, but two to help it navigate the potentially turbulent waves of air transport liberalisation in the 1990s.

Mr Carlos van Rafelghem, chairman of the Belgian carrier, ended months of speculation yesterday when he announced an agreement whereby British Airways and KLM would each take a 20 per cent stake in a new Sabena subsidiary called Sabena World Airlines.

He said that the deal would be submitted to the directors of the three airlines, Governments of the three countries concerned and the European Commission next month, and the new airline hoped to start flying next January.

Sabena has been in the marriage market for some time, believing that only a link with a foreign carrier or carriers would end its problems.

Sabena's difficulties have been: as a medium-sized airline, trying to maintain its position in the increasingly competitive European air transport sector; the relative under-use of a potentially very valuable hub in Brussels; and low profitability.

Ironically, yesterday Mr van Rafelghem was able to announce increased net profits for 1988 of BFr334.7m ($8.05m), up from BFr70m the year before. The improvement, he said, was chiefly due to a strengthening of Sabena's European passenger network, helped by the commissioning of four Boeing 737-300s, and a turnround in the freight sector.

The airline carried 17 per cent more cargo in 1988 than the year before, mainly due to its deal with DHL and Express Mail Service to set up a rapid air mail service between Brussels and New York.

But the Sabena management is evidently looking beyond one year's recovery to future deregulation of European air transport. As Mr van Rafelghem said the prospect is of "spectacular growth in the coming years," especially in Brussels which he dubbed "the capital of Europe."

Sabena, which is 53 per cent state-owned, feared that the business might go to bigger carriers if it did not first join hands with them.

The plan is for Sabena World Airlines to take over all passenger, cargo and mail carrying activities of the existing Sabena airline, though it will not own aircraft. These will be leased from the parent Sabena group (which has 28 aircraft operating and a further 20 on order), and presumably from BA and KLM.

Sabena hopes to gain added clout in the market, apparently through a reservation system more integrated with those of its new partners. Sabena officials say that the latter can expect to see an increased number of their flights to and from Brussels.

The new deal has to be submitted to the European Commission's competition authorities. Mr van Rafelghem stressed that "the joint participation will in no way alter the autonomous market behaviour of any of three airlines which will remain fully independent and in competition."

He said there was no question of cross-shareholdings between the three airlines themselves. Sabena World Airlines should have a separate identity, he said.

Sir Leon Brittan, the EC competition commissioner, has warned that he will take a tougher line on airline mergers than the US regulatory authorities have done during air transport deregulation on the other side of the Atlantic.

But he also has indicated that he is more concerned about concentrations within a single EC state than about cross-border link-ups.

KLM aims for world growth

By Laura Raun in Amsterdam

KLM ROYAL Dutch Airlines is flying high with ambitious plans to expand around the globe, perhaps becoming Europe's most international airline.

Yesterday a deal between the Dutch airline, involving British Airways, and the Belgian Sabena was confirmed. This follows the acceptance on Monday of a $3.65bn offer by an international consortium, including KLM, for NWA, the parent of Northwest Airlines, the fourth largest carrier in the US.

These plans are designed to brace KLM for increasing competition from US and Asian airlines and for price erosion in the wake of "open skies" deregulation policies.

KLM's profits may soon feel the pressure of increasing taxes, higher interest payments and lower book profits from aircraft sales.

Northwest, with its leading position on Pacific routes, will complement KLM's strength on North Atlantic routes. Northwest's freight activities are also considered attractive to KLM, which has been building up its own freight operations.

And KLM has been talking for some time to Sabena, which will help to strengthen the Dutch airline's European and intercontinental flight routes.

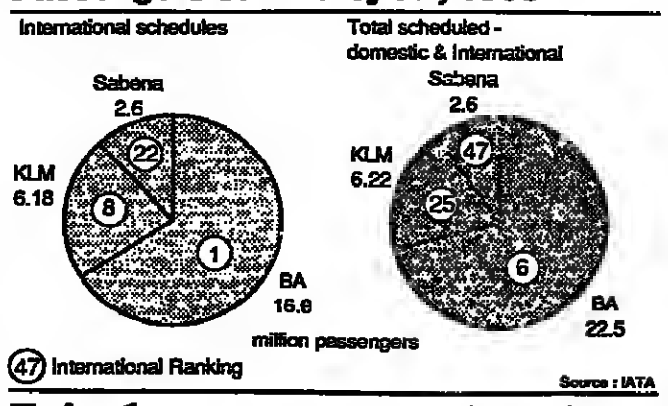
KLM is 39 per cent owned by the Dutch Government. It was founded in 1919 and is one of the oldest airlines in the world. With profits of Fl314m on turnover of Fl5.58bn ($2.49bn), it is Europe's fourth largest air carrier.

It has cultivated a reputation for high quality and punctuality – although there are signs of slippage. Because it has a small home market it concentrates on international routes, building up strength on North Atlantic routes.

Mr J.F. de Soet, president-director of the company, said in April that KLM was looking for a "strong" US partner to tap the huge American market. In the past talks with American Airlines fell through.

KLM is investing to modernise its aircraft fleet. Some 55 aircraft are owned and 24 leased, and efforts are underway to increase the number of Boeing aircraft it has in its fleet.

Passengers carried by air, 1988



Source: IATA

Link creates rival to big US airlines

By Michael Donne, Aerospace Correspondent

THE LINK being created as British Airways and KLM each take 20 per cent stakes in Sabena World Airlines will create a new force in international air transport, rivalling some of the biggest US airlines in size.

BA acquired 100 per cent of British Caledonian last year, and has also built up a 40 per cent stake in The Plimsoll Line (TPL), which owns the two UK regional airlines, Brymon and Birmingham Executive. However, the deal with Sabena represents BA's first successful acquisition overseas.

It follows other international airline deals such as the purchase by Scandinavian Airlines System of a 25 per cent stake in Airlines of Britain Holdings (which includes British Midland), and the current International Leisure Group (Air Europe) campaign to create a network of short-haul airlines throughout Europe.

In the International Air Transport Association's rankings for 1988, British Airways stood first in terms of international scheduled passengers carried with 22.5m (including the former British Caledonian traffic), while KLM stood eighth with just under 6.2m passengers, and Sabena 22nd with just over 2.6m (see chart).

In terms of total scheduled passengers carried, however, BA was ranked sixth – after the giant US operators American, United, Continental, Eastern and Trans World – while KLM stood at number 25 and Sabena at 47.

Although the three airlines in the new association will continue to compete, collectively their power will be considerable, for both BA and KLM will have seats on the Sabena board and so be able to influence policy.

In 1988 the three airlines carried a total of over 31.3m scheduled passengers, which would have ranked them fifth in the IATA list, just ahead of Trans World.

Sabena will benefit from the link with the two successful airlines, BA and KLM, especially from what is called "interlining," whereby passengers from one member of the group can be fed into the others' networks.

BA will gain an important foothold in the Continental airline industry, giving it a new "hub" on the Continent and providing additional airport capacity in Brussels.

The deal also ensures that the predatory aspirations of some of the big US airlines, which have been seeking the same foothold and have been eyeing Sabena, have been kept at bay – at least for now.

BA has been concerned about this, and about the increasing power of the US airlines in other world markets. For this reason it sought, unsuccessfully, to acquire an interest in Air New Zealand.

BA has also been meticulous in arranging marketing deals of its own, and in buying stakes in the growing computer reservations systems. In addition to holding a stake in the Galileo international CRS consortium, BA has a stake in Covia, the computer reservation arm of United of the US.

The Sabena deal represents BA's first important move in acquiring stakes in international airlines, but the search is continuing, and other deals are likely to follow.

Checchi makes one of his connections at NWA

Roderick Oram meets a fast-moving airline buyer

Flush with his first $50m, 37-year-old Al Checchi arrived in Beverly Hills in 1986, a little-known man intent on making his mark in southern California. Nine months later he was the cover story in the Los Angeles Times Sunday magazine.

Nobody had heard of him in Minneapolis-St Paul either, until two months ago when he bid for one of the twin cities' largest businesses – NWA, parent company of Northwest Airlines, a US carrier with an enviable share of trans-Pacific traffic.

After a swift auction, NWA's board has chosen an investor group led by Mr Checchi to take the company private in a $3.65bn deal. Analysts give the $121 a share offer a reasonable chance of clearing the market and regulatory hurdles by the September 18 deadline imposed by NWA.

'My wife and I pride ourselves on our principle interest of forming relationships — often quickly and many in great depth'

Mr Checchi attributes his fast ascent to his business background and to personality. "My wife and I pride ourselves on our principle interest of forming relationships – often quickly and many in great depth," he said yesterday.

Networking is an American passion and Mr Checchi is a master at it. In business, Democratic party fund raising, civic affairs and social life, one connection has led swiftly to another. Within months of meeting Mr John Elliott, chairman of Elders IXL of Australia, at the 1988 Winter Olympics, "we became close personal friends and secondly developed a business relationship," Mr Checchi said in a newspaper interview yesterday.

Elders is putting up some of the $700m equity for the Checchi bid while the largest chunk – reportedly $400m – is coming from KLM Royal Dutch Airlines in a swiftly formed alliance.

Federal law prohibits foreign investors from holding more than 25 per cent of a US airline's voting shares, or exerting any control over it. KLM will pass the first test by, for example, holding nonvoting preferred stock. But the size of its investment is raising questions about the influence it will have over NWA.

"The strategic alliance with KLM affords abundant opportunities" in the trans-Atlantic market, Mr Checchi says, in passengers and freight.

NWA urgently needs his skills at forging relationships, analysts say. Its pilots and machinists have been at odds with management, led by Mr Steven Rothmeier, for years.

Problems worsened after NWA took over Republic Airlines in 1986. A troublesome melding of the airlines left NWA with the worst complaints record in the industry and the nickname Northworst.

The company has progressed since then but pilots are still working without contracts, some of which expired in 1986. Part of the trouble is Mr Rothmeier himself. He has a reputation in the industry second only to Mr Frank Lorenzo of Texas Air for being aloof, autocratic and difficult.

Under the takeover plans, Mr Rothmeier will stay on as chief executive of NWA. "I think Mr Rothmeier is a tremendous executive," Mr Checchi says.

"The company's strategy is pretty well laid out and the route system has terrific growth potential and the management had great foresight to order new aircraft early.

"I see myself as chief cheerleader for the company, reaching out to the employees and helping to integrate them better," he adds.

Besides building bridges within the company and outside, Mr Checchi also intends to have a leading financial role, a discipline which made his reputation and fortune at an early age.

Mr Checchi grew up in a Washington suburb. After Harvard Business School he was hired for a job at Marriott by Mr Gary Wilson, its chief financial officer who had worked for Mr Checchi's uncle. Mr Wilson later served on the NWA board and put in a good word for Mr Checchi.

Mr Wilson and Mr Checchi developed the innovative real estate financing programmes that fuelled Marriott's rapid growth in the late 1970s and early 1980s to become the world's largest hotel.

Through the real estate ventures, Mr Checchi met Mr Richard Rainwater, a trusted associate of the wealthy Base brothers of Texas. From Marriott, Mr Checchi went to work for the Basses.

Though he had made a small fortune estimated at $50m in

'I see myself as chief cheerleader for the company, reaching out to the employees and helping to integrate them better'

his work for the Basses, friends and associates say that Mr Checchi was keen to move on to his own projects. He and his family moved to Beverly Hills in June 1986. Introductions from the people such as the Basses paved their way as the Checchis plunged into charity and civic activities.

Mr Checchi also tried to crack the Democratic political process but he was reportedly turned off by being branded as a rich fund raiser. Politicians quoted in the Los Angeles Times said he expected to vault into a senior Government position without paying his political dues.

The tantalising question for airline watchers is whether there is room in NWA for Mr Rothmeier and Mr Checchi, who says: "Frankly, I don't see issues of ego involved at all."

Judging by his career so far, Mr Checchi will quickly suss out the situation. As Mr Bob Strauss, a renowned Democrat power broker, said of his foray into politics: "The son of a bitch is smart. He'll adapt."

INTERNATIONAL CAPITAL MARKETS

German stock exchanges criticise turnover tax

By Haig Simonian in Frankfurt

WEST GERMANY'S stock exchanges have welcomed last week's parliamentary approval for the country's new stock exchange law, which should come into force on August 1. However, they issued a powerful call for the urgent abolition of the stock exchange turnover tax, which they say encourages the drift of business to other European financial centres.

At its annual press conference this week, the Federation of German Stock Exchanges appealed to Mr Theo Waigel, the new Federal Finance Minister, to bring forward the abolition of the tax. Speaking recently, Mr Waigel merely said that he thought the tax, which contributed DM451m ($223m) to the German Exchequer in 1987, would be repealed before 1993.

The stock exchanges also expressed disappointment at the Government's decision to postpone the introduction of new rules liberalising the investment rules governing insurance companies until after the next general elections.

However, Mr Gernot Ernst, president of the members of the federation and a partner in Delbrück, the West Berlin-based private bank, made clear that Germany's bourses were now willing to go along with a new legally based ban on insider trading.

The German Government has come under some pressure from its partners in the European Community to introduce such a ruling, as Germany is now the only leading member state still to have a voluntary anti-insider code.

"Germany's bourses can live with a legally based ruling," said Mr Ernst. However, he criticised the current guidelines on the grounds that they drew too wide a definition of who might be caught within the insider trading net. According to Mr Ernst, the guidelines are in need of modification, particularly to distinguish more clearly between "primary" and "secondary" insiders.

The new stock exchange law, which will also open the way to the Deutsche Terminbörse (DTB), Germany's new financial futures and options exchange, may also have an influence on the way shares are traded in Germany.

Mr Heinz Kramer, a general manager at Dresdner Bank, said he thought trading on the bourse should be extended to at least six hours from the present two to provide a steady stream of prices to the DTB for its equity options.

CBOE to launch two interest rate options

By Deborah Hargreaves in Chicago

IN A bid to attract more retail customers back to the options market, the Chicago Board Options Exchange will launch on Friday two options on interest rates aimed at the individual investor.

The contracts, which have been designed by the CBOE in conjunction with Telerate, the information group, will track short-term and long-term interest rates – the first time an option will rise and fall with current interest rates and not in inverse relation to them as with the bond market.

Mr Duke Chapman, CBOE chairman, said the contracts had been developed to make it easier for retail investors to hedge interest rate exposure such as mortgages and car loans. "Typically, individual investors think about changes in yields and not the price of bonds," he said.

The two contracts – to be labelled IRX and LTX – would also enable investors to hedge their fixed-income portfolios. Many retail investors had moved out of equities into fixed-income portfolios since the 1987 stock market crash and, up till now, had little with which to hedge their exposure.

"As we reach out to fixed-income users, we will attract a whole new class of investors to options, who previously did not have an option to use," said Mr John Richards, CBOE vice president of marketing.

The IRX option will be based on the yield of the most recently auctioned 13-week Treasury bill, while the LTX option will be a mix of yields on two longer-term T-bills. Both values will be calculated by Telerate. The options will also be cash-settled, making them easier for individuals to use.

Ecu borrowing set for Italian loan institution

By Norma Cohen

CREDITO FONDARIO, an Italian medium-term mortgage institution, has mandated Banco di Roma to arrange for it an Ecu100m 10-year term loan.

Amortisation of principal begins within the first year, giving the loan an average life of six years. Margins for the first five years are 20 basis points, rising to 25 basis points for years six through to 10.

Fees start at 14 basis points for banks lending Ecu8m, falling to 11 basis points and finally to eight for banks with smaller participations. There is also a 10 basis point commitment fee.

US mortgage securities fund attracts Japanese

By Janet Bush in New York

A FUND investing primarily in US mortgage-related securities has been launched by Blackstone Financial Management, an arm of the Blackstone investment banking boutique, and placed mostly with Japanese institutional investors.

The fund is called the Blackstone Fund for Fannie Mae Mortgage Securities. Acting as agents, Salomon Brothers and Goldman Sachs have privately placed interests in the fund totalling $570m.

According to all parties involved, this is the largest fund investing primarily in US mortgage-related securities ever offered outside the US. "The successful offering of the fund is an important step towards attracting a broader pool of international capital to the US mortgage securities markets," the companies said.

The Blackstone Fund is the first to bear Fannie Mae's name and to invest substantially all its assets in Fannie Mae mortgage securities.

Mr David Maxwell, Fannie Mae chairman, said the fund offered an excellent vehicle for international investors who might not have extensive experience of such securities.

"The ultimate winners will be US home buyers who will enjoy another source of funding for mortgages," Mr Maxwell said.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on June 20

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 9½ 93	600	101⅜	102	-1⅛	-0⅝	8.95
Austria 9⅝ 93	140	101⅛	101½	-1⅛	-0¼	9.11
B.F.C.E. 7 92	150	94⅝	95⅛	-0½	-0⅝	9.15
B.F.C.E. 9¼ 95	150	100⅝	101⅛	-1⅛	-0⅛	9.04
Brit. Tel. Fin. 9¾ 98	250	102	102⅜	-1⅛	-1	9.01
BP America 9¾ 99	250	†104	104½	-0¾	-0⅝	9.06
Canada 9 96	1000	101⅜	102	-1⅛	-0⅞	8.65
Canadian Pac 10⅛ 93	100	†101⅞	102⅜	+0⅛	+0⅛	10.04
C.C.C.E 9¾ 95	300	100⅝	101⅛	-1⅛	-0⅝	9.00
C.N.C.A 9⅝ 93	150	100⅝	100⅞	-1⅛	-1	6.23
Credit National 8¾ 93	200	†97⅜	97⅞	-0⅝	-0⅛	9.08
Credit National 7⅞ 92	100	95⅜	95⅞	-0⅞	-0⅛	9.17
Credit National 9½ 92	160	†101⅛	102⅛	-1	-0⅜	8.82
Dai-ichi Kan 9⅝ 92	150	100⅛	101⅛	-0⅞	-0⅛	9.22
Denmark 7⅛ 92	500	94⅞	95⅜	-0⅞	-0⅜	9.27
E.E.C. 7 93	100	95⅛	95½	-0½	-0⅝	9.03
E.E.C. 7⅛ 93	250	94⅜	94⅞	-0⅜	-0⅝	9.04
E.E.C. 10 93	140	103	103⅜	-0⅛	-0½	8.96
E.I.B. 9¾ 97	150	102⅜	102⅞	-1⅛	-0⅝	8.92
Eurofima 10⅛ 93	100	†103½	103⅞	-1	-0⅛	8.92
Elec. De France 9 98	200	99⅞	100⅜	-1⅛	-0⅛	8.97
Elec. De France 9½ 99	200	102⅞	103⅛	-1½	-1⅛	9.01
Finland 7⅞ 97	200	94⅝	94⅞	-0⅜	-0⅛	8.86
Finn. Exp. Cd. 8½ 92	200	98	98½	-0⅜	-0⅜	9.22
Finn. Exp. Cd. 9⅜ 95	200	101	101⅜	-1⅛	-0⅞	9.11
Ford Motor Credit 8 91	250	†97½	98	-0⅛	-0⅜	9.41
Ford Mtr. Cred. 10 94	200	—	—	—	—	—
Gen. Elec. Cap. Corp. 9 95	500	†99⅞	99⅝	-0⅞	-0⅞	9.15
Gen. Elec. Cap. Crp. 10 1/2 91	300	101⅜	102⅜	-0⅞	-0⅛	9.16
Gen. Mtrs. Corp. 9⅜ 92	200	99⅛	99⅜	-0⅛	-0⅛	9.31
IBM Credit Corp. 8⅞ 91	250	99⅜	100	-0½	-0⅛	9.01
IBM Credit Corp. 9½ 92	250	101	101½	-0⅜	-0½	8.91
IBM Credit Corp. 10 92	200	102½	103	-0⅞	-0⅛	8.86
Italy 9½ 95	1000	101⅞	102⅜	-1⅛	-0⅜	9.03
Italy 9⅝ 99	1000	—	—	—	—	—
Japan Dev. Bank 10 96	200	104⅞	105⅜	-1⅛	-0⅛	8.97
L.T.C.B. of Japan 9¼ 92	200	100	100½	-0⅜	-0⅜	9.13
Metropolis Tokyo 9½ 93	200	101	101⅛	-1⅛	-1⅛	9.08
Nippon Tel.&Tel. 9⅝ 98	250	102⅛	102½	-1⅛	-1⅛	9.00
Norway 8¾ 93	500	†99⅜	99⅝	-0⅝	-0⅝	8.93
Portugal 8¼ 91	300	†97⅝	97⅞	-0⅛	-0⅜	9.74
Prudential Crp. 8¾ 94	125	99⅜	99⅞	-1½	-1⅛	8.87
State Bk S Aust 9¼ 95	100	†99⅞	100⅜	-0⅝	-0⅛	9.10
Sumitomo Bank 9⅝ 92	150	†100½	101	-1	-0⅛	9.32
Sweden 7 91	250	95⅝	96⅛	-0⅜	-0⅛	9.03
Sweden 8¾ 96	200	98⅞	99⅜	-1⅛	-0⅞	8.91
Sweden 8½ 92	200	†97⅞	98⅛	-0⅜	-0½	9.24
Toyota 9½ 91	200	100⅞	101⅛	-0⅜	-0⅛	9.05
Victorian Rep 11⅛ 92	150	105⅛	105⅞	-0⅝	-0½	9.32
World Bank 7 92	300	†95⅛	95⅞	-0⅛	-0⅝	8.98
World Bank 9 97	300	100⅛	100⅜	-1⅛	-0½	8.92
World Bank 9 93	300	100⅛	100⅜	-0⅞	-0½	8.92
World Bank 9¼ 98	300	101⅛	102⅛	-1⅛	-0⅛	8.93
World Bank 9⅜ 99	500	104	104⅜	-1⅛	-1	8.93
World Bank 9¾ 96	300	†104	104½	-0⅜	-0½	0.53

Average price change... On day -1 on week -0½

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	95⅝	96⅛	+0⅛	+0⅜	6.92
Austria 6¾ 99	750	†99⅜	99⅞	+0⅞	+0⅜	6.85
Bank of Tokyo 5⅜ 93	100	94⅜	94⅞	-1½	-1⅛	7.50
Commerzbank o/s. 5⅜ 93	300	95⅜	95⅞	+0½	+0⅜	6.79
Credit Foncier 6⅛ 99	300	†99⅞	99⅜	+1⅛	+0⅜	7.86
Degussa Int. 6⅛ 97	200	95⅛	96⅛	+1⅛	+0⅞	6.70
E.I.B 5½ 98	150	90½	91	+0½	+0⅜	6.95
E.I.B. 6⅛ 99	600	95½	95⅞	+0⅛	+0⅛	6.88
E.I.B. 6⅜ 96	300	96	96½	+0⅛	+0⅜	6.81
E.I.B. 6½ 99	300	†97⅛	97⅛	+0⅜	+0⅜	6.85
E.I.B. 6⅞ 95	300	100⅞	101⅛	-0⅜	-0⅜	6.69
Euro.Coal&Steel 5⅞ 97	175	†93⅞	94⅛	+0⅜	+0⅜	6.92
Eurofima 6⅛ 96	100	95⅞	95⅞	+0⅛	+0⅛	7.06
Elec Dv France 5½ 97	300	95⅜	95⅞	+0⅞	+0⅞	6.85
Forsmark Krtg. 5⅜ 93	200	93⅛	94	0	0	7.10
Hydro-Quebec 6⅛ 99	300	†99	99⅛	+0⅝	+0½	6.87
Japan Dev. Bk. 5⅜ 95	300	†94	94⅜	+1½	+1⅛	6.59
Japan Finance 5⅜ 97	100	93	93½	+0⅜	+0⅛	6.91
Ireland 6½ 97	300	95⅛	96	+0⅛	-0⅛	7.22
Malaysia 6⅛ 94	150	96⅛	96⅜	0	0	7.10
Nat. West BK. PLC 6 98	300	†93	93½	+0⅛	+0⅜	7.05
N.H.L. Finance 6⅜ 95	200	†93⅜	94⅛	+0⅛	0	7.45
Nippon Telg.&Tel. 6 95	400	†95⅜	96⅛	+0⅜	+0⅜	6.36
Oesters. Kontbk. 5 93	300	95⅛	95⅜	+0⅜	0	6.42
Portugal 5¾ 92	150	96½	97	+0⅜	+0½	6.94
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.93
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.85
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.63
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.59
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.05
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.73

Average price change... [illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.53
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.90
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.98
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.75
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.97
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.89
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.75
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.08
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.60
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.37
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.56
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.72
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.72
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.25
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.57

Average price change... [illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	101	101⅛	0	0	5.38
Canada 5⅞ 93	80	100⅞	101⅛	-0⅛	-0⅛	5.34
Eurofima 5 1995	20	97⅛	98⅛	-0⅛	-0⅛	5.43
E.I.B. 4⅞ 93	30	98	98⅛	-0⅛	-0⅛	5.44
Ireland 5⅛ 93	30	99⅜	99⅝	-0⅛	-0⅜	5.27
Norway 5⅛ 95	50	98⅜	99	-0⅛	-0⅛	5.35
Sweden 4⅝ 93	50	97⅜	97⅝	-0⅛	-0⅛	5.42
World Bank 5⅛ 98	10	†97½	98	-0⅜	-1	5.45
World Bank 7 94	20	106⅛	106⅝	-0⅛	-0⅛	5.44

Average price change... On day -0⅛ on week -0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. BS.10⅛ 93 £	50	93⅛	93⅝	+0½	+0½	12.54
Abbey Nat. 11⅝ 95 £	100	97⅛	97⅝	+0⅜	+0⅜	12.23
Aegon 7⅞ 92 FL	100	†101⅞	101⅞	+0⅞	+0⅞	7.78
Alg. Bk. Ned. 5⅞ 93 FL	200	93⅞	94⅜	+0⅜	+0⅜	7.60
Austria 7½ 94 ECU	100	95⅜	96⅛	+0⅛	+0⅛	8.54
Bk. Nova Scot. 14⅝ 90 A$	75	95⅛	96⅛	+0⅛	+0⅜	17.88
Barclays Aus. 13½ 91 A$	100	94⅜	94⅞	-0⅜	-0⅛	16.34
Belgium 8⅝ 94 Ecu	150	97⅞	98⅜	0	+0⅜	8.61
BP Capital 9⅜ 93 £	100	92⅝	93⅛	+0⅛	+0⅜	12.17
British Airways 10 98 £	100	89⅛	89⅝	+0⅜	+0⅜	12.01
Buhrmann-Tet. 6½ 93 FL	100	95⅛	95⅝	+0⅜	+0⅛	7.70
Comm. Bk. Aust. 12⅛ 93 A$	100	†93	93½	0	0	15.00
CrLocalFrance 9⅜ 92 Ecu	100	101⅜	102⅛	+0⅜	+0⅛	8.51
Dent. Bk. Aus. 13⅝ 93 A$	125	94⅜	94⅞	+0½	+0½	15.04
Deutsche Bk. Fin. 15 94 A$	100	101⅞	102⅜	0	-0⅛	14.36
Eastman Kodak 13 90 A$	100	95⅛	95⅝	+0⅜	0	17.51
E.I.B. 7 96 LFr	100	96½	97½	0	-0⅜	7.58
E.I.B. 9 99 Ecu	150	†101⅛	102⅛	+1	+0⅜	8.68
Eurofima 7⅞ 94 Ecu	100	96⅛	96⅝	+0⅜	+0⅜	8.56
Export Dv.Crp.8⅞ 92Ecu	100	100⅛	100⅝	+0⅛	-0⅛	8.58
Fed.Bus.Dv.Bk.9⅜ 92 C$	75	†98	98½	-0½	-0⅛	10.46
Fed.Bus.Dv.Bk.10½ 93C$	50	†100½	101	-0⅜	-0⅜	10.26
Ferrv. Stato 7⅞ 93 Ecu	100	96⅜	96⅞	+0⅜	+0⅜	8.79
Ford Cr. Can. 10⅛ 93 C$	100	†100⅜	100⅞	-0⅜	-0⅛	10.49
Ford Cred. Can. 10⅞ 96C$	125	†103⅜	103⅞	+0⅜	+0⅜	10.08
Ford Mtr. Cred. 7⅞ 93Ecu	100	96⅞	97⅜	+0⅜	+0⅛	8.81
G.M.A.C. 9¾ 93 C$	150	†96⅛	96⅝	-0⅜	-1	10.89
Heineken 7⅞ 94 FL	150	100⅛	100⅞	+0⅛	+0⅛	7.71
Hydro-Quebec 11 99 C$	400	†104⅞	105⅛	-0⅜	+0⅛	10.14
Lloyds Bank 10⅛ 98 £	150	90	90½	0	+0⅛	12.10
Lloyds Bank 11½ 98 £	100	93⅞	94⅛	+0½	+0⅞	12.46
Montreal Tst.10⅛ 95 C$	100	†98⅛	99⅛	+6½	-0⅜	11.06
Morgan Guar. Tst. 11 91 C$	150	†99⅜	99⅞	-0⅛	-0⅜	11.17
Nat. Aus. Bk. 14⅛ 94A$	100	99⅛	99⅞	+1	+0⅜	14.84
New Zealand 9½ 93 £	100	91⅛	91⅝	0	+0⅜	12.43
Philips Gloeil. 6 93 FL	300	†95⅛	95⅝	+0⅞	+0⅜	7.30
Privatbanken 7½ 94 LFr	500	97⅞	98⅞	0	-0⅜	7.91
Royal Bk.Scot.10⅝ 98 £	125	92⅛	92⅝	+0⅜	+0½	12.09
Saskatchewan 9⅞ 91 C$	150	†98⅛	98⅝	-0½	-0⅛	10.69
Saskatchewan 10⅛ 93 C$	200	†99⅜	100⅜	-0⅛	-0⅜	10.21
State Bk. NSW. 13⅞ 93A$	100	93	93⅝	+0⅜	+0½	15.39
Sweden 15 94 A$	100	101⅜	102⅛	-0⅜	-0⅜	14.37
Toyota Mtr.Cr.11⅛ 92C$	150	101⅛	102⅛	-0⅜	-0⅜	10.53
World Bank 13⅜ 92 A$	100	†98⅝	99⅛	+0⅜	+0½	13.82
Zentrbpk. 13¼ 93 A$	75	†94⅜	95⅜	0	-0½	14.90

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bld 94 £	.08	99.95	100.00	18/07	13.08
Bank of Greece 99 US	0⅛	99.73	99.83	8/09	10.62
Belgium 91 US	0	100.18	100.28	19/08	9.38
Chelt. & Gloucester 94 £	.063	99.85	99.89	30/08	14.06
Credit Foncier 98 US	.063	100.24	100.34	20/10	10.16
Dresdner Finance 99 DM	.031	99.93	100.03	27/07	6.59
EEC 3 92 DM	0	100.53	100.63	20/08	5.63
Halifax BS 94 £	.1	99.96	100.01	6/08	12.97
Inrt. in Industry 94 £	0⅛	99.98	100.08	24/08	14.06
Leeds Perm. B/S. 94 £	0⅛	100.10	100.15	13/07	13.34
Midland Bank 01 $	.1	98.37	98.67	11/08	12.97
Milk Mkt. Brd. 5 93 £	0⅛	100.03	100.08	30/06	13.06
New Zealand 5 97 £	.07	99.99	100.09	22/08	13.19
State Bk. New. 98 US	.188	100.48	100.58	11/08	9.87
Woolwich Equit.BS. 95 £	0⅛	100.12	100.17	13/07	13.37
Woolwich 5 95 £	0⅛	99.95	100.00	22/08	13⅛

Average price change... On day +0.01 on week +0.01

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6⅛ 02 US	8/87	62.	115½	116½	-1⅛	8.97
Amer. Brands 7⅛ 02 US	9/87	56.7	126⅛	127⅜	-0½	1.14
Ashikaga Bank 2⅛ 02 US	4/87	967.	124⅜	125⅜	+6	3.28
Asics 5 92 DM	†12/83	472.7	255	256	-9⅞	8.41
CBS. Inc. 5 02 US	4/87	200.	102⅛	103⅛	-3	3.77
Primerica 5½ 02 US	4/87	66.75	68⅜	69⅜	-0⅞	95.92
Eng. China Clay 6½ 03 £	9/88	4.8	101½	102½	+1½	3.07
Fujitsu 3 99 US	5/84	1106.	220⅛	221⅛	+15	-0.57
Land Secs. 6⅛ 02 £	6/87	6.72	95⅜	96⅛	+0⅜	11.66
Minolta Camera 2⅛ 94 DM	2/86	1004.	111⅛	113	-2⅛	6.91
MCA INC 5½ 02 US	9/87	69.62	97⅜	98⅜	+3⅛	14.34
Mitsubishi Bk. 3⅛ 04 US	5/89	3266.	92	93	+1⅛	4.86
Mitsui trust 2⅛ 01 US	10/86	1905.	117	118	+1⅛	3.41
Next Plc 5⅛ 03 £	11/87	4.3	98⅛	99⅛	+0⅛	207.31
Nishi Nipp.Bk.2⅞ 03 US	4/88	804.	113	114	+3	-3.83
Onoda Taisei 2⅛ 02 US	4/87	1310.	266⅛	267⅛	+34⅛	-2.08
Ranks Hovis 4⅛ 03 £	†1/88	3.5	124⅛	125⅛	-0⅛	-2.97
Redland 7⅛ 02 £	1/87	5.4	103⅛	104⅛	-2½	1.88
Saatchi&Saatchi 6⅛ 03 £	†10/89	4.41	90⅛	91½	-1⅛	37.43
Sumitomo Bank 3⅛ 04 US	2/89	4296.	83⅞	85⅛	+2	17.66
Texas Inst. 2⅛ 02 US	9/87	82.87	75⅞	76⅞	-1⅞	49.81
W.R. Grace 6⅛ 02 US	9/87	42.12	94⅛	95⅛	-0⅛	22.52

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed recurrency of share at conversion rate fixed at issue. Prem = Percentage premium of the currenteffective price of acquiring shares via the bond over the most recent price of the shares.

Swedish institute in tap deal

By Andrew Freeman

THE SWEDISH mortgage institute, Stadshypoteksksassans, will be the first borrower to take advantage of the recent relaxation of foreign exchange controls announced by the Swedish Government.

The institute, which is the largest such body in Sweden, will issue a five-year tap deal denominated in Swedish kronor in Copenhagen via Den Danske Bank.

The initial deal will be around SKr2.5bn ($368m), and the bonds will start trading on July 3, the first business day after the relaxation comes into effect on July 1. A coupon of 11 per cent has been set. The launch price will be fixed when trading starts.

By launching a tap issue, the institute indicated it would bring a series of similar deals in what is the largest and most liquid of the Scandinavian bond markets.

The bonds will be priced to offer a similar yield to the institute's domestic issues. At present market levels, the yield will be around 11.6 per cent, a spread of roughly 40 basis points over Swedish government bonds.

BBL withdraws from Australian forex market

BBL AUSTRALIA, part of the Banque Bruxelles Lambert banking group of Belgium, is withdrawing from the Australian foreign exchange market because of low profitability, AP-DJ reports.

The bank will continue other activities in Australia, including domestic money and capital market trading and corporate finance operations.

BBL will not take any new positions in the Australian foreign exchange market from today, but will continue to trade until existing transactions are completed.

A bank official said BBL's absence would have little effect on the liquidity of the local currency market, where average daily turnover is about A$25bn (US$18bn).

Banque Bruxelles Lambert will now concentrate its Asia-Pacific foreign exchange activities from its Singapore office.

● DFC New Zealand, an investment bank 20 per cent owned by Salomon Brothers of the US, is to cease interbank spot foreign exchange trading.

DFCNZ said it would increase corporate treasury services to focus on areas where it had proven competitive advantage.

Since the floating of the NZ dollar in 1985, the market had been crowded by the number of trading and dealing alternatives available to organisations with foreign exchange exposure, DFCNZ said.

INTERNATIONAL CAPITAL MARKETS

US Treasuries boosted by recovering dollar

By **Janet Bush** in New York and **Norma Cohen** in London

US TREASURY bonds moved modestly higher yesterday morning reflecting a recovery in the dollar from earlier lows in the Far East. However, trading was quiet in the absence of any economic news.

At midsession, the bench-

GOVERNMENT BONDS

mark long bond was quoted ⅛ point higher for a yield of 8.30 per cent. The dollar, which the government market continues to track closely, was quoted at Y144.10, towards the top of its New York range against the yen, and at DM1.9785, up one pfennig from its earlier lows.

A small measure of relief for the bond market also came from a dip in the Commodity Research Bureau's index, which had surged more than two points on Monday following grain, meat and precious metals futures' gains. At 11.30am, the CRB index was quoted 0.38 point lower.

The only news of any note was a comment by Mr Charles Dallara, US Assistant Treasury Secretary for International Affairs, who said that the current level of the dollar was of some concern to the Administration. His remark, mirroring many other similar statements by US officials recently, had little obvious impact.

With nothing much to focus on yesterday, the bond market was concentrating on forthcoming key events and economic figures. The first of these is today's publication of the US Federal Reserve's latest Tan Book, a compilation of regional economic reports used as a guide to policy-making at the Federal Open Market Committee. The Treasury will also announce today its two- and four-year financings.

Tomorrow, the final revisions of first-quarter GNP come out and durable goods orders and personal income and consumption for May are released on Friday.

■ UK GOVERNMENT bonds closed with losses of up to ¼ point in fairly active trading, despite firmer opening levels scored on the back of an improvement in sterling.

In addition to news of faster-than-expected growth in the narrowest monetary aggregate, M0, and stronger-than-expected UK bank lending, prices were depressed by signs that a single securities firm unwound a large position in gilts futures.

The firm, said to be a major US securities house, apparently sold gilts futures against its holdings of gilts just before the close of the London futures exchanges. However, prices had softened earlier in the day as two securities houses sold gilts short to hedge their positions following the launch of two new Eurosterling bonds.

Dealers described trading as technical, noting it was likely to remain so until the next set of data – showing the UK's current account deficit – is released next Tuesday. In the meantime, prices are likely to be underpinned by the Bank of England's next reverse auction for the gilts market, to be held late next week.

■ WEST GERMAN government bond prices closed slightly higher on the day although well below the day's best levels. Dealers noted that yield levels on the most recent government issues were now below 6.70 per cent – about their lowest yield level since late January. Dealers said bund price fluctuations over the day roughly tracked the movement in the dollar.

The Bundesbank yesterday announced plans to replace an expiring DM8.3bn repurchase agreement today with a variable rate tender. Last week's variable rate tender was offered at rates between 6.5 and 6.80 per cent, unchanged from the previous week.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	105-09	+3/32	11.49	11.66	11.00
		8.750	1/98	94-25	-1/32	10.70	10.87	10.27
		9.000	10/08	94-03	-7/32	9.68	9.87	9.28
US TREASURY *		9.125	5/99	105-10	+12/32	8.32	8.21	0.00
		8.875	2/19	106-08	+16/32	8.30	8.16	8.71
JAPAN	No 111	4.600	6/98	94.5808	+0.118	5.50	5.47	5.36
	No 2	5.700	3/07	104.7127	+0.098	5.19	5.08	5.08
GERMANY		6.375	11/98	101.9500	+0.050	6.71	6.78	7.01
FRANCE	BTAN	8.000	1/94	96.6537	+0.055	8.90	8.82	8.92
	OAT	6.125	5/99	96.6100	+0.030	8.64	8.65	8.80
CANADA *		10.250	12/98	104.7500	+0.000	9.48	9.38	9.76
NETHERLANDS		6.7500	10/98	98.1250	+0.050	7.12	7.17	7.42
AUSTRALIA		12.000	7/99	90.9543	+0.824	13.69	13.75	13.60

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Euro Disneyland flotation likely to value it at $1.7bn

By **Clare Pearson**

THE OFFER of shares in Euro Disneyland, the Walt Disney theme park outside Paris due to open in 1992, is likely to value the company at FFr11.9bn ($1.7bn) when launched in Europe this autumn, says Warburg Securities, the UK securities house.

But, Warburg claims in its research document, "A Share in Euro Disneyland," published yesterday, this valuation is based on a conservative estimate of likely attendance at the park – which is the key variable in the pricing.

Warburg, lead manager for the flotation of shares in the operating company, Euro Disneyland SCA, has arrived at the FFr11.9bn figure on the basis of Disney's own target of 11m visits in the first year. But Arthur D. Little International, the consultant, reckons the visitors could well total between 11.7m and 17.8m.

On Warburg's model, if attendance rose to 13m, the FFr11.9bn value would increase to FFr13.9bn, and if it fell to 9m, it would be FFr9.4bn.

Depending on market reactions, the shares are likely to be priced at a small discount to their expected initial market value to help the markets absorb them. This may be between 5 and 10 per cent.

The detailed, 113-page document is to be circulated to Warburg clients ahead of the Paris, London and Brussels listings. The Disney group is selling 51 per cent of Euro Disneyland.

Disney is selling the shares because of a French government requirement when it sold the 4,800-acre site in the Ile de France, that the Disney group, should share the economic benefits with local residents. Under European Community law, this has to include other EC citizens.

Disney, which will retain full management control of the project, is to be paid an annual so-called incentive fee geared to the park's cash-flow.

Warburg has approached its valuation by drawing on the precedent of Eurotunnel. It says this is because it is the only other UK-quoted investment that requires investors to provide equity financing for a project which is not yet operational.

Like Eurotunnel, Euro Disneyland will not pay a dividend for the period during which construction of the theme park is taking place.

Warburg assumes investors will be looking for a total return (a mix of capital uplift and dividend payments) of 12 per cent per annum once the park is up-and-running.

During the much riskier construction phase, when investors will not be receiving dividends, Warburg estimates that investors will want the capital value of the shares to rise by 20 per cent per annum.

Maiden credit card issue meets generous reception

By **Katharine Campbell** and **Andrew Freeman**

THE FIRST credit-card backed deal was accorded a generous reception on the Eurobond market yesterday, although some traders were sceptical as to whether there would be a rush of similar asset-backed instruments.

While an international tranche has been attached to

INTERNATIONAL BONDS

some US domestic deals, this was the first to be tailored specifically to the Euromarket. The $300m bond was brought by Citicorp for a special issuing vehicle, Euro Credit Card Trust 1989-1. It has a five-year maturity and is backed by credit card receivables purchased by the Trust from Citibank's South Dakota and Nevada subsidiaries.

The bond, which at launch was yielding 84.5 basis points above Treasuries, was well taken by investors in the Middle East, Europe and by UK fund managers. In mid-afternoon it was quoted within fees at less 1.75 bid.

While the deal was intended to find a home within Eurobond portfolios short of AAA-rated paper, one market participant questioned the suitability of the Eurobond structure for this type of asset-backed security.

Arguing that such paper was unlikely to move much in the secondary market, he complained that "the overall market is far too big to be fussing around with small Eurobond deals. For co-leads there is insufficient incentive if prices are not going to move much."

Elsewhere, Northern Rock, a Newcastle building society, tapped the floating-rate sector with a £75m three-year deal brought by UBS-Phillips & Drew, with another £25m in tap form. The paper found a home predominantly among sterling-based investors, although some bonds were apparently sold to Germany. The deal was quoted just within total fees of 9.5 basis points at 99.91 bid.

The three-year Eurosterling sector was tapped by two borrowers taking advantage of the tight secondary market spreads enjoyed by recent Barclays and OKB deals. Samuel Montagu brought a £50m deal for Amro Bank and BZW was the lead manager of a £75m issue for Banque Nationale de Paris.

Both deals were swapped into floating-rate sterling and came with identical terms, offering 12⅞ per cent coupons and priced at 101.30. The Amro bonds were priced to yield 60 basis points over UK government bonds, while the BNP deal was launched at a spread of around 58 basis points.

● The exchange offer into Finland bonds launched by JP Morgan three weeks ago closed on Monday. By last Friday, holders of $268m had been committed. The final issue size is expected to be around $325m.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
STERLING						
Northern Rock B.Society(d)‡◆	75	⅛	100	1992	0½/5bp	UBS Phillips & Drew
Banque Nationale de Paris◆	75	12⅞	101.30	1992	1⅞/1⅞	BZW
Amsterdam-Rotterdam Bank◆	50	12⅞	101.30	1992	1⅞/1⅞	Samuel Montagu
US DOLLARS						
Euro Credit Card Trust◆	300	9⅛	101⅛	1994	2/1⅛	Citicorp Inv. Bank
Student Loan Marketing Ass.◆	100	9	101⅞	1993	1⅞/1⅛	Fuji Int. Finance
Swedbank◆	100	9.7	101⅞	1999	2/1⅛	Salomon Brothers
NYK Int.◆	100	8½	101⅞	1994	1⅞/1⅛	Mitsubishi Finance
Hitachi Data Systems◆	20	9⅛	101⅛	1993	1⅞/1⅛	IBJ Int.
CANADIAN DOLLARS						
Privatbanken◆	560	(e)	100	1994	n/a	Drexel Burnham Lambert
LIRE						
Renault Acceptance BV◆	100bn	12⅛	101.20	1992	1⅛/⅞	San Paolo Bank
SWISS FRANCS						
BFCE(a)◆	150	5⅞	101⅛	1999	n/a	Credit Suisse
Maxwell Finance(b)‡◆	125	5½	100	1994	1⅞	SBC
ECUs						
Club Mediterranee(c)◆	40	15	101⅞	1990	1/⅛	Societe Generale

★Private placement. ‡With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Call after 5 years at 101⅛ declining ½% p.a. b) Coupon fixed as indicated. Conversion price 220p. Exchange rate 2.5736. c) Redemption at issuer's option in either US$ or Ecus at Ecu1.04 per $. d) ⅛ over 3-month Libor. Additional £25m on tap. e) Coupon linked to 3-month Banker's Accept rate.

OZ places index options

OZ ZURICH Optionen und Futures is issuing 150,000 put and 150,000 call options based on the OZX Index of Swiss shares, Reuter reports. This is OZ's first index put option and its second call.

Mr Martin Ebner, OZ chairman, said almost all of the contracts had been placed with Swiss financial institutions. They are intended primarily for the retail market but banks may use the puts to hedge their portfolios, he said.

Although the options had not been placed directly abroad, Mr Ebner said he expected many of them to end up with banks in London. A number of UK-based banks had expressed an interest, especially in the puts, he said.

The OZX index is based on 11 permanently traded Swiss shares. The total value of the underlying shares of both options surpasses SFr700m. The options are scheduled to be listed in Zurich on July 17.

Mr Ebner said the company planned a futures contract for the index, probably in six months. OZ is also drawing up plans for an interest-rate option contract, but the project is complicated by the lack of a suitable reference point for the contract, Mr Ebner said.

The total capitalisation of all options on Swiss stocks was about SFr3.35bn, OZ estimated.

Dutch bullet raises Fl 3.2bn

By **Our Financial Staff**

THE DUTCH Government bullet – over 10 years at 7.25 per cent – launched at tender last week raised Fl 3.2bn ($5.9bn) at an issue price of 100.8 per cent, the Finance Ministry said yesterday. Allocations included Fl 200m in bonds bought by the Dutch central bank for its state bond intervention fund.

At 100.8 per cent, allocations were honoured up to 60 per cent of their total value. Above that, price allocations were honoured in full. The issue follows a 7.5 per cent ten-year bullet which raised Fl 6.5bn.

Malaysia plans banks law revamp

MALAYSIA'S Parliament has introduced a bill to revamp its finance sector, giving greater regulatory powers to authorities and requiring foreign banks to incorporate locally, Reuter reports.

The bill, which is expected to be passed later this month, is aimed at stabilising the financial system, rocked by the failure of several banks and deposit-taking co-operatives in recent years due to fraud and mismanagement.

Under the proposed laws, foreign banks operating in Malaysia will be given five years to incorporate their operations locally.

There are 16 foreign-incorporated banks with assets of over 40bn ringgit, representing 35 per cent of the total assets of the 39 commercial banks operating in Malaysia.

The bill also empowers the central bank to revoke the license of any financial institution if the interests of customers are threatened.

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

		Tuesday June 20 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Jun 19 Index No.	Fri Jun 16 Index No.	Thu Jun 15 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (205)	964.92	+0.8	10.85	4.07	11.51	14.74	957.69	955.51	948.61	784.98
2	Building Materials (29)	1190.77	+1.3	11.86	4.32	10.42	22.52	1183.19	1180.73	1161.89	1060.71
3	Contracting, Construction (37)	1641.42	+0.8	14.13	4.20	9.28	30.72	1628.98	1633.22	1627.59	1391.92
4	Electricals (9)	2815.77	+0.7	8.48	4.89	14.56	58.60	2796.58	2790.74	2779.65	2096.52
5	Electronics (30)	2265.47	+0.7	8.42	3.87	15.39	25.92	2249.81	2242.74	2223.82	1694.77
6	Mechanical Engineering (54)	531.15	+0.6	10.82	3.98	12.28	8.84	527.96	522.46	520.79	482.92
8	Metals and Metal Forming (7)	518.83	+0.5	19.31	3.77	5.71	3.40	517.40	531.30	529.72	479.98
9	Motors (17)	524.39	+0.7	11.46	4.46	10.73	6.80	520.72	520.61	520.30	[illegible]
10	Other Industrial Materials (22)	1594.83	+0.6	9.44	4.26	12.65	26.35	1585.27	1577.53	1565.98	1296.99
21	CONSUMER GROUP (187)	1231.89	+0.6	8.98	3.46	13.93	17.90	1225.08	1217.44	1208.33	1056.13
22	Brewers and Distillers (22)	1333.94	+1.0	10.18	3.65	12.35	15.11	1321.29	1320.61	1320.50	1152.87
25	Food Manufacturing (20)	1086.36	+0.2	9.33	3.84	13.41	17.13	1083.99	1076.87	1072.85	982.55
26	Food Retailing (15)	2393.13	+0.3	8.44	3.18	15.59	25.59	2390.40	2386.80	2372.31	2033.40
27	Health and Household (14)	2242.34	+1.2	6.61	2.65	17.16	21.50	2216.34	2189.19	2166.77	1856.38
29	Leisure (33)	1654.04	+0.2	7.69	3.43	16.28	22.85	1651.49	1632.27	1628.61	1345.35
31	Packaging & Paper (15)	563.58	-0.7	10.34	4.56	12.34	8.15	567.57	566.38	565.16	599.91
32	Publishing & Printing (19)	3553.36	+0.3	8.66	4.47	14.67	71.88	3542.78	3534.50	3513.08	2423.86
34	Stores (34)	812.70	+1.0	11.10	4.43	11.71	14.98	804.89	801.54	791.12	818.29
35	Textiles (15)	534.65	+0.5	11.56	5.40	10.79	13.42	534.98	533.63	529.00	590.26
40	OTHER GROUPS (94)	1126.43	+0.1	10.11	4.77	12.28	15.55	1127.46	1122.86	1117.62	990.34
41	Agencies (18)	1379.27	+1.5	7.22	2.39	17.14	14.91	1359.56	1349.39	1353.81	1180.53
42	Chemicals (22)	1266.67	+0.8	11.88	4.63	10.64	24.38	1256.53	1272.74	1269.38	1068.00
43	Conglomerates (12)	1465.26	+0.3	10.49	5.06	11.23	29.14	[illegible]	[illegible]	[illegible]	1215.63
45	Transport (13)	2438.75	+1.0	[illegible]	3.76	15.02	39.22	2438.74	2444.57	2425.69	1918.14
47	Telephone Networks (2)	1119.46	-0.6	11.29	4.46	11.26	2.76	1119.74	1118.20	1120.28	963.23
48	Miscellaneous (27)	1685.15	+1.5	9.47	3.55	11.98	21.67	[illegible]	[illegible]	[illegible]	1181.33
49	INDUSTRIAL GROUP (486)	1154.05	+0.4	9.82	3.92	12.56	16.10	1149.14	1143.70	1136.30	972.77
51	Oil & Gas (14)	2064.63	+0.1	10.64	5.46	12.73	51.14	2066.03	2056.73	2052.57	1681.96
59	500 SHARE INDEX (500)	1231.74	+0.4	9.98	4.12	12.58	19.84	1226.97	1221.20	1214.06	1049.56
61	FINANCIAL GROUP (124)	733.85	+1.0	-	5.31	-	17.62	726.88	725.26	722.51	708.54
62	Banks (8)	731.16	+1.7	24.38	6.54	5.39	21.71	719.21	718.44	715.56	672.95
65	Insurance (Life) (8)	1057.89	+0.7	-	5.64	-	29.86	1051.02	1047.69	1046.06	1025.26
66	Insurance (Composite) (7)	566.94	+0.3	-	6.80	-	14.75	565.37	559.87	561.58	560.17
67	Insurance (Brokers) (7)	964.70	-0.2	7.83	6.36	17.19	23.63	966.87	976.08	963.42	971.34
68	Merchant Banks (11)	328.93	+0.3	-	4.72	-	5.93	327.82	328.27	328.80	367.94
69	Property (52)	1322.42	+1.0	4.28	2.99	28.32	15.98	1308.90	1299.55	1280.72	1241.88
70	Other Financial (31)	356.71	-	11.61	4.88	11.84	6.82	356.72	356.89	356.05	385.56
71	Investment Trusts (71)	1146.37	+0.4	-	2.85	-	14.25	1141.24	1143.18	1142.91	898.99
81	Mining Finance (2)	619.01	+0.2	9.32	4.15	11.94	16.45	617.58	619.67	618.26	545.93
91	Overseas Traders (8)	1382.23	+1.6	11.57	5.78	9.84	35.87	1359.69	1383.40	1376.35	1138.47
99	ALL-SHARE INDEX (705)	1108.39	+0.5	-	4.26	-	18.53	1103.16	1098.73	1092.63	960.57

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jun 19	Jun 16	Jun 15	Jun 14	Jun 13	Year ago
FT-SE 100 SHARE INDEX◆	2164.8	+16.1	2173.7	2164.6	2154.7	2143.9	2129.6	2133.6	2123.8	1868.1

FIXED INTEREST

	PRICE INDICES	Tue Jun 20	Day's change %	Mon Jun 19	xd adj. today	xd adj. 1989 to date
	British Government					
1	5 years	116.97	+0.01	116.96	-	5.61
2	5-15 years	129.53	-0.19	129.77	-	6.86
3	Over 15 years	140.17	-0.32	140.62	-	7.09
4	Irredeemables	163.47	+0.10	163.31	-	6.34
5	All stocks	128.16	-0.13	128.33	-	6.54
	Index-Linked					
6	5 years	135.59	-	135.58	-	1.36
7	Over 5 years	132.15	-	132.13	-	1.88
8	All stocks	132.30	-	132.29	-	1.82
9	Debentures & Loans	112.91	-0.27	113.22	-	5.91
10	Preference	87.62	-	87.62	-	3.10

	AVERAGE GROSS REDEMPTION YIELDS		Tue Jun 20	Mon Jun 19	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	10.02	10.03	9.02
2		15 years	9.59	9.57	9.28
3		25 years	9.38	9.39	9.18
4	Medium Coupons	5 years	11.12	11.09	9.49
5		15 years	10.07	10.02	9.49
6		25 years	9.60	9.56	9.31
7	High Coupons	5 years	11.25	11.23	9.57
8		15 years	10.29	10.24	9.63
9		25 years	9.78	9.74	9.37
10	Irredeemables		9.38	9.39	9.21
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.86	3.85	2.66
12	Inflation rate 5%	Over 5 yrs.	3.79	3.79	3.80
13	Inflation rate 10%	5yrs.	3.05	3.04	1.62
14	Inflation rate 10%	Over 5 yrs.	3.61	3.61	3.62
15	Debs & Loans	5 years	12.37	11.86	10.32
16		15 years	11.72	11.56	10.70
17		25 years	11.29	11.26	10.73
18	Preference		10.32	10.29	9.59

◆Opening index 2168.0; 10 am 2169.6; 11 am 2173.0; Noon 2170.4; 1 pm 2171.3; 2 pm 2171.2; 3 pm 2172.2; 3.30 pm 2170.3; 4 pm 2170.9
(a) 10.48am (b) 4.53pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	16	68	22
Corporations, Dominion and Foreign Bonds	16	4	22
Industrials	521	248	818
Financial and Properties	224	79	358
Oils	26	16	52
Plantations	1	0	11
Mines	55	26	113
Others	47	102	106
Totals	890	543	1,502

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
180	F.P.	23/6	216	180	Commodity Hosp. Grp £1	215	-1	R4.5	1.4	2.8	19.7
F1.47	F.P.	-	£17¼	£16⅞	DAF N.V. Fl.5	£16⅞	-⅛	R02.5	1.8	4.4	12.7
85	F.P.	-	96	84	♦Diamond Group Hldgs 5p	93		L1.13	4.7	1.6	17.7
50	F.P.	-	60	56	Donelon Tyson 10p	56		u0.75	1.6	1.8	46.8
§	F.P.	-	101	61	Ex-Lands Warrants	60	+2	-	-	-	-
130	F.P.	-	141	130	♦Fannal Trading 5p	131		L4.88	2.4	5.0	10.0
160	F.P.	-	173	160	♦Hadleigh Inds. 50p	172	+1	4.5	3.1	3.5	10.2
†	F.P.	-	140	125	Hardy Oil & Gas 50p	134	+3	-	-	-	-
Ir76	F.P.	-	77	65	♦Kingspan Gp Ir20p	77		L1.71	3.6	3.8	10.1
§58	F.P.	-	66	56	♦Mitchie Group 20p	60		Wd1.38	4.5	3.0	8.1
†	F.P.	-	£11¾	£11½	Mitsubishi Tst & Bank Y50	£11¾	-⅛	Q16%	8.2	3.0	40.8
†	F.P.	-	53	45½	♦Oliver Resources Ir5p	50½	-½	-	-	-	-
90	F.P.	-	108	90	♦Plastiseal 5p	106		L3.78	2.3	4.8	12.4
-	F.P.	-	178	158	♦Quarto (Restd Trans) 10c	161		6.0	-	5.0	-
§125	F.P.	-	152	135	Sheffield Insulations 10p	139	+1	L4.25	2.2	4.1	14.7
105	F.P.	-	120	111	♦Smith (James) Estates	118		u3.0	0.9	3.4	34.9
200	F.P.	-	204	203	Templeton Inv. Tst. Units	204	+1	-	-	-	-
§60	F.P.	-	67	63	♦TLS Range 5p	66		u2.7	1.1	5.5	12.8
†	F.P.	-	£85¾	£85½	Topdanmark DK100	£85¾		Q10%	12.8	9.6	8.2

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+ or -
♦	Nil	-	64½pm	52pm	Anglo Grp. 9½pc Cv.Bds. 1999	64½	+8
-	F.P.	-	107p	101p	Ashley Grp. 8¼pc (Net) Cm Rd Cv Pf	107p	
100p	F.P.	-	100¼p	99p	Co-Operative Bk. 9¼pc Non-Cum Ir. Pf	99p	
♦	F.P.	-	103p	100p	Evode 7p (Net) Cm. Red. Pf.	101p	
100p	Nil	-	4pm	2pm	Hartwell 7¾p (Net) Cv.Pf. £1	2pm	
-	F.P.	-	100	98[illegible]	N'wide Anglia 12⅞pc 19.3.90	98[illegible]	+[illegible]
-	F.P.	-	100[illegible]	98[illegible]	Do. 13¾pc 23.4.90	99[illegible]	+[illegible]
-	F.P.	-	100	98[illegible]	Do. 13pc Bds 14.5.90	98[illegible]	+[illegible]
-	F.P.	-	100	99	Do. 13⅛pc Bds 4/6/90	99[illegible]	+[illegible]
§99.1	£25	-	28½	25	Do. 4.25pc Index-Linked 2024	26	
100p	F.P.	-	100¼p	98¾p	Sparhawk 9.75pc Cum Red. Pf. 2014	99½p	+½
§420p	Nil	-	25pm	21pm	Tiphook Units	21pm	
§100p	Nil	-	13pm	10pm	WPP 8.25p Cv.Rd.Pf. 10p	13pm	

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
9	6	8/9	9½pm	7½pm	Bear Brand	9½pm	
62	Nil	-	8pm	5pm	♦Eadie Hldgs	5pm	
61	Nil	-	11pm	7½pm	Fife Indmar	11pm	
78	Nil	-	16pm	9pm	♦Midland & Scottish Resources	16pm	
435	Nil	-	54pm	50pm	RTZ 10p	53pm	+2
60	Nil	27/7	11pm	8pm	Richardsons Westgarth 10p	9pm	
5	H5	-	½pm	¼pm	♦Southwest Res. A 2p	¼pm	
115	Nil	18/7	6pm	1½pm	T & S Stores 5p	2pm	+½

‡ Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. e Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on Prospectus or other official estimates for 1989. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Jun 12
- Last Dealings Jun 23
- Last Declarations Sep 14
- For settlement Sep 23

For rate indications see end of London Share Service

Calls in Tuskar, Budgens, Parkfield, Harding, Lloyds Chem, New England Props, Mining Allied, Lawrence W, Norfolk Cap. Puts in Dalgety, Tuskar Res.

LONDON TRADED OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK COMPANY NEWS

Meyer pleases market with £87.2m

By Philip Coggan

MEYER INTERNATIONAL, the builders and timber merchant, yesterday revealed a 58 per cent jump in pre-tax profits at the end of an eventful year which included a failed bid, a business swap with Norcros and a major Dutch acquisition.

The shares leapt 20p to 404p yesterday as the markets welcomed the 58 per cent increase in the final dividend and a confident statement from Mr Oscar DeVille, chairman, which said that both profits and turnover of on-going businesses were higher in the first two months of the year.

Pre-tax profits for the year to March 31 were £87.2m (£55.1m) on turnover of £956.4m (£712.5m). Net interest payable was £6.65m (£1.73m) and the company has a gearing level of 35 per cent. After tax of £28.5m (£19.96m), earnings per share were 60.35p (44.4p). The final dividend is 11p (7.1p) making a total of 15p (9.5p).

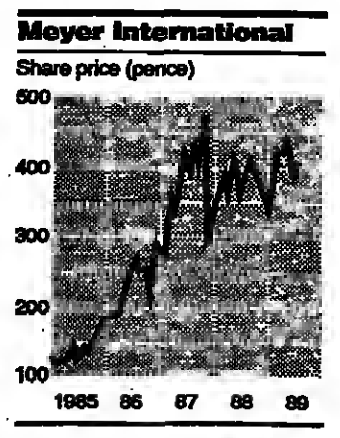
Although Meyer was defeated by Sandell Perkins in its attempt to win control of its bid target Travis & Arnold it has retained a 21 per cent stake in the merged Travis Perkins. As a result, the figures include a £1.72m contribution from associated companies.

In December, Meyer agreed to exchange its Crosby manufacturing interests for the UBM chain of builders merchants and the Cadel chain of plumbers' merchants owned by Norcros. The deal created an extraordinary gain of £52m, part of an extraordinary credit of £56.2m (£941,000).

However, the UBM and Cadel chains added only £86,000 of profit on turnover of £36.45m. Some of the UBM branches have been sold and the rest have been converted into Jewson units.

Jewson had a successful year, increasing profits to £35.46m (£24.78m) on turnover of £398m (£346m) and there was a full contribution from Pont-Meyer, the Dutch merchanting company, where Meyer bought out its equity partner during the year. Profits were £5.07m on turnover of £126.2m.

Once again, profits were boosted by property disposals, which contributed £18.03m (£6.68m). Mr DeVille said he did not expect a marked drop in property profits this year.



● **COMMENT**

Meyer's confidence rather took the markets aback yesterday as they had been used to less cheery news from Travis Perkins and Erith. The buoyancy of Meyer's trade may be due to its wider geographical spread but one has to wonder whether the economic slowdown will be UK-wide by the second half of Meyer's financial year. In the longer term, the key questions are whether Meyer can work the trick at UBM where others have failed before it and whether property profits can continue at their present rapid rate. These various doubts may subdue Meyer's share price which even after yesterday's rise is only on a rating of around 6.5, assuming pre-tax profits of £92-93m this year. But long-term investors may see this as a good chance to buy a quality company with a good recent track record.

YJ Lovell shares jump as profits double

By John Ridding

SHARES IN YJ Lovell, the housebuilder and construction group, climbed 27p to 254p yesterday as the company revealed a 96 per cent increase in profits to £10.11m for the six months to the end of March.

Sir Norman Wakefield, chairman, said that the results showed an "exceptional rate of growth".

He said that although he was confident about the full year, the slowdown in the private housing market meant that the growth rate would not be maintained in the second half.

Turnover increased by only 5.9 per cent to £174.93m. Earnings per share almost doubled, from 5.82p to 11.49p, and there is an interim dividend of 2p (1.5p).

Although private housing sales fell by about 20 per cent over the period the average price of its houses increased from £76,000 to £94,000.

Further, there was a strong increase in the sale of partnership houses, built in conjunction with local councils, which more than offset the private sector downturn.

● **COMMENT**

Sharply higher profits are doubly surprising when they come from the currently unfashionable building sector and Lovell's results wrongfooted the City. The only complaint about the company is its refusal to break down profits and the consequent need to take certain prospects on trust. But this is made easier by the fact that it has delivered the goods for fourteen consecutive years. Having diversified into businesses which are relatively insulated from the impact of higher interest rates Lovell seems well placed to outperform the sector. In the current year, income from this source, and from its recent property gain in the US, should outweigh any private housing downturn and ensure pre-tax profits of £32m. The multiple of 7 which this implies is at a justified premium to the sector but will stay below the market average until interest rates are unlikely to fall below 100 per cent... believed to have peaked.

Whittington acquisition and £7.75m rights issue

By John Thornhill

WHITTINGTON, the giftware, games and cutlery group, is to buy Macsel, a greetings card distributor, for £6.64m in loan notes.

Leeds-based Whittington is also to launch a one-for-one rights issue at 50p a share to raise about £7.75m in order to increase its working capital and reduce its debt following the acquisition.

Macsel, which is based in Salford, operates from eight warehouses between Bristol and Glasgow. In the 11 months to the end of March, Macsel made pre-tax profits of £1.06m.

The £6.64m of loan notes will be redeemable between two and 10 years after the acquisition is completed. A further payment of up to £3m may be made depending on Macsel's profits in the period to April 1991.

Lowe warns of profits shrink after Babygro buy

By Vanessa Houlder

SHARES IN Robert H. Lowe, the leisurewear and childrens' wear manufacturer which bought Babygro for £4.3m last July, lost 20 per cent of their value when the company warned that profits might fall in the current year and could emerge slightly below last year's record £1.5m.

The share price fell from 112p to 90p.

Mr Derek Hill, Lowe's chief executive, said the principal problem was higher interest charges, which are expected to rise from £400,000 to £1.3m. The company's gearing was 160 per cent at the year end and is unlikely to fall below 100 per cent by the end of the financial year.

The situation at Babygro had also proved worse than expected at the time of the takeover.

ICI/Wellcome joint venture company sold to US group

By Peter Marsh

INTERNATIONAL Minerals and Chemical, US chemicals group, has agreed to pay £155m for an animal health business formerly owned jointly by Wellcome and Imperial Chemical Industries, the British drugs and chemicals companies.

Called Coopers Animal Health, the joint Wellcome/ICI business last year showed a pre-tax profit of £6m on sales of £200m.

Animal health products – which encompass items such as nutrition supplements and veterinary medicines – add up to a market worth some £7bn a year worldwide. Leading players include Merck and Pfizer of the US, France's Rhône-Poulenc and Bayer of West Germany.

Both Wellcome and ICI have been for some time anxious to divest themselves of their animal health interests in order to concentrate on other areas, while IMC is keen to build up in this field, through its Pitman-Moore animal health subsidiary.

The size of the payment for Coopers Animal Health, which includes £133m in cash and the rest in debt, surprised some analysts.

The transaction was agreed in outline in December although the full terms of the agreement were disclosed only yesterday.

Beecham and SmithKline play a £3.7bn tune

By Peter Marsh

THE BARBICAN HALL, home of the London Symphony Orchestra, which is always rumoured to be thinking about a merger with one of the other London musicians' groups, was the scene yesterday of another marriage proposal.

Shareholders of Beecham, the UK drugs and consumer products group, met to discuss the planned merger with the US's SmithKline Beckman in a move which is due to create the world's second biggest pharmaceuticals group with annual sales of £3.7bn.

The plans were approved, taking into account proxy votes, by a huge majority. The holders of 274.9m shares were in favour of the move, compared with just 1.2m against.

That did not stop, however, several of the 150 or so small shareholders at the meeting voicing some notes of disharmony about aspects of the deal.

Most of the criticism was directed at Mr Bob Bauman, Beecham's American chairman, who appeared on the conductor's podium yesterday flanked by 11 fellow Beecham directors.

Mr Bauman is due to take over as chief executive of the merged group, which is to be called SmithKline Beecham.

Mr Bauman is a calm, unflamboyant figure – much more a Charles Ives than a Leonard Bernstein – but even he appeared to be ruffled by the remarks of some of the shareholders.

Mr John Smith, one of them, was worried by the programme that lay ahead. He feared the new group would have too much of an American ring to it.

Bob Bauman, chairman: ruffled by shareholders

Most of the important directors would be US nationals, he said, and he feared the merged company might choose to orchestrate events so that Beecham's UK research centres would have only a minor role.

Mr Bauman sought to reassure him by arguing that both the US and the UK ends of the new operation would be playing to the same tune.

There were other points of discord about the terms by which existing Beecham shares are to be swopped for a package of shares in the new entity together with loan stock. The loan stock can be cashed in only in 1992.

By this time, some of the shareholders argued, the UK's tax regime might have changed, making the likely rewards unenticing.

Casket in £12m claim against ex-Kingsley directors

By Andrew Hill

CASKET, the clothing maker and distributor, has issued writs against five former directors of Kingsley & Forester Group, the toys, hardware and clothing company it bought in late 1987, claiming some £12m.

That is the difference between the price Casket says it should have paid for the company, and the value of the actual merger, which put a price of just under £15m on Kingsley.

Casket alleges that at the time of the negotiations with Kingsley, material misrepresentations were made as to the group's financial position.

Writs have been issued against Mr Arnold Forester, Mr Franco Toniolo, Mr David Singer, Mr John Houlton and Mr Simon Ledbrooke.

Mr Forester, former chairman and managing director of Kingsley, was to have been joint managing director of the merged group, but he has since left the company, as has Mr Houlton, Kingsley's former finance director.

The solicitor for the two men said that both had a "complete and full defence" against the allegations; the other former directors were unavailable for comment.

Casket said it was considering action last September after it discovered "that serious discrepancies existed in the management accounts of certain Kingsley & Forester companies and, in the opinion of the board, in the published accounts of Kingsley & Forester Group for previous years."

In the same statement in the 1987-88 annual report, Lord Barnett, Casket's chairman, said that it had also become obvious that "standards of management information and financial and management controls were unsatisfactory."

Problems at Kingsley companies depressed Casket's pre-tax profits in the year to June 30 1988 by nearly £1m to £3.44m.

Casket said it was not contemplating legal action against Kingsley's advisers.

Smurfit buys all CCA's Mexican interests

By Edward Sussman

Jefferson Smurfit, the Dublin-based paper and packaging group, has taken over the entire Mexican operations of Container Corporation of America for $93m (£60m) cash.

Jefferson Smurfit, whose US subsidiary owns 50 per cent of CCA, previously owned an effective 39 per cent interest in the Mexican operations.

Mr Robert Holmes, chief financial officer, said the purchase was part of the company's gradual accumulation of all CCA's non-US interests. The only remaining interest was in Colombia, and he expected Jefferson Smurfit would exercise its option to buy that operation within the next few weeks.

The Mexican operation's net assets were $107m at end-1988, with turnover of $235m and pre-tax profits of $33.2m.

Waterford promises holders 'truly a new beginning'

By Kieran Cooke in Dublin

AFTER A I£50m redundancy programme that went disastrously wrong, shareholders at the troubled Waterford Glass Group's AGM in Dublin yesterday were promised "truly a new beginning" after a fresh agreement between management and workers.

Mr Howard Kilroy, newly appointed chairman, said he was confident that in 1990 Waterford - which yesterday voted to change its name to the Waterford Wedgwood group – would have a "healthy profitability".

Shareholders were yesterday critical of both past management and what several felt was the board's inadequate monitoring of developments within the Group.

The new agreement between the unions and management, combined with continuing buoyant sales in the US and a strong dollar, is felt by analysts to augur well for the Waterford Wedgwood Group.

Devenish beats forecasts with 74% rise to £5.16m

By Lisa Wood

J A DEVENISH, the regional brewer, yesterday reported pre-tax profits ahead 74 per cent to £5.16m in the half year to March 31. The results, which included property profits of £2.49m, beat City forecasts.

Turnover was £37.06m, compared with £29.61m. Interest charges amounted to £2.56m (£1.25m). Earnings per share were 10.72p, up from 5.57p, with an interim dividend of 0.95p (0.75p).

Mr Michael Cannon, chairman, said the managed house division generated a substantial proportion of the increased profit. He said e new trading area had been set up based on the purchase of eight pubs and a development site in the Hull area and further pub purchases in Derby and Long Eaton.

He said the development of the Redruth Brewery was complete. Production volumes were 70 per cent up on the same period last year with the brewery operating at half capacity. Free trade customers now accounted for at least 60 per cent of sales.

● **COMMENT**

The outlook for Devenish – one of the most retail-minded regional brewers – seems set fair with a strong second half performance expected from its managed pubs which are benefiting from all day opening and the move towards holidays in the UK. The brewery – with Devenish treating it as a profit centre in its own right – should move into profit next year after a small trading loss this year. interest charges in the second half will be reduced although Devenish will be actively looking for more pubs. Analysts who expect e continuing high level of property disposals are looking for pre-tax profits of about £15m for the year giving a prospective p/e of 13.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interim- Horne (Robert).

Finals- Amber Industrial, Booth Inds, Brookmount, Charter Consolidated, Erostin, Latham (James), Mountview Estates, Quiligotti, Scantronic, Zambia Conolidated Copper Mines.

FUTURE DATES

Interims-	
Bangkok Inv	June 27
British Petroleum	Aug. 10
Economic Forestry	June 28
Electronic Data Process.	June 28
Throgmorton Trust	June 30
Finals-	
Bimec Industries	June 27
Bristol Stadium	June 29
Dixons	July 12
Drummond	June 22
Eblef	July 20
Graham Wood	June 30
India Fund	June 27
Intl Inv Trust of Jersey	June 30
Ivory & Sime	June 30
Rexmore	Aug. 16
Ross Catherall	July 4
Shelton (Martin)	June 30
Smith New Court	June 29
Stead & Simpson	June 27
Sterling Industries	June 22
Stormgard	June 27
Whitecroft	June 25

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Blacks Leisure ......fin	0.1	-	0.1	0.15	0.1
Christie Group ......fin	2.6	-	-	4	-
City Gate Ests §......fin	7.875	-	-	11.25	-
Cont Stationery ......fin	2.6†	Aug 2	2.25	3.5	3
Devenish (JA) ......int	0.95†	July 21	0.75	-	3.55
GEI Intl ......fin	4.4	-	3.91	6.54	5.85
Lovell (YJ) ......int	2	-	1.5	-	6.65
Markheath ......fin	3.5	Sept 29	2.5	5	3.5
Meyer Intl ......fin	11	-	7.1	15	9.5
NSM ......fin	3	-	nil	3	nil
Reliance Secty§ ......fin	4.25	-	3.25	5.75	4.75
Thorpac § ......fin	0.833	—	0.833	1.166	1.166
Volex Group ......fin	10	Oct 2	8	16	12
Wellman ......fin	1	July 26	nil	1	nil
Welpac § ......fin	0.55	-	0.55	0.55	0.55

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market.

UK COMPANY NEWS

Minorco to petition US supreme court

By Kenneth Gooding, Mining Correspondent

MINORCO, the South African controlled investment group, is leaving nothing to chance in its attempts to end the US litigation which prevented it taking over Consolidated Gold Fields, the diversified UK mining company.

It has now petitioned the US Supreme Court to consider whether a US court should have jurisdiction over a private civil action brought against Minorco by Gold Fields.

The Supreme Court will review the case in its next session, begining in October.

The issue is separate from the anti-trust case brought by Gold Fields and its associate Newmont Mining which Minorco is contesting but for which no timetable has yet been fixed.

Minorco said it decided to petition the Supreme Court because there were substantial issues of public interest in which the court might be concerned.

It has requested the court to address three questions.

The first is to consider whether the target of a hostile takeover bid, such as Gold Fields, has standing to challenge the bid under US anti-trust laws, given that the management of the target is generally not motivated by concern for competition.

The second issue is whether a plaintiff must present evidence, rather than mere allegations, of "injury of the type the anti-trust laws were intended to prevent" in order to have standing to enjoin an acquisition.

Finally, the court will be asked to consider whether US courts must, for reasons of international courtesy, exercise restraint before enjoining an acquisition of one foreign company by another on US anti-trust grounds, where the anti-trust authorities in all relevant jurisdictions have cleared the acquisitions.

Blacks Leisure falls to £3.1m due to slackening retail demand

By John Thornhill

BLACKS LEISURE Group, the camping and sports retailer and fashion goods manufacturer, yesterday reported a 35 per cent fall in pre-tax profits to £3.1m in the year to February 25.

This decline, from £4.76m in the previoos year, was recorded on increased sales of £48.07m (£43.57m), which included full-year contributions from acquisitions made in 1987.

Mr Simon Bentley, who took over as chief executive from Mr Bernard Garbacz this March, said the major cause of the profits fall was the drop in retail demand.

But he said the company had also incurred a £227,000 above-the-line charge on setting up the distribution for LA Gear, a range of athletic footwear products.

In addition, a £200,000 trading loss was incurred in the sports distributiou division, which was set up during the year to handle the LA Gear and Fila ranges.

Also included in this profit figure were exceptional profits of £662,000 from the sale of warehouses and £317,000 from the sale of Howard Sports shops. But £130,000 was paid in compensation to employees for loss of office, including £100,000 paid to Mr Alan Thornton, who resigned from the board in March.

An extraordinary charge of £261,000 was also incurred, relating to rationalisation costs.

"We have spent the last three months getting our house in order and are looking forward to expanding organically and by acquisition," Mr Bentley said yesterday.

He said orders for LA Gear and Fila were encouraging and the benefits of the investment in this field should materialise in the current year.

The board is recommending a final dividend of 0.1p which will give a yearly payment of 0.15p (0.1p). Earnings per share fell from 0.86p to 0.64p.

● **COMMENT**

This was a bad set of numbers from Blacks – especially when the exceptional profits were stripped out – and the result must be most dispiriting for those thousands of penny share holders who clambered aboard when Blacks was billowing in the stock market a few years ago. In the past year, conditions have not favoured the company but there are some encouraging signs that things may pick up this year. Current trading is reported to be good and the much-hyped LA Gear will also contribute. After the recent changes, the management now seems to have its sights more firmly fixed and benefits should also result from the sports and camping operations move to Washington, Tyne and Wear. Pre-tax profits may pick up to about £3.5m putting Blacks on a prospective p/e of 13. That still seems too high on fundamentals, however, although the share price may be enlivened by the presence of Mr Byron Radaker, an American entrepreneur, who bought a 9.6 per cent stake from Mr Bernard Garbacz in March. Since then, he has not increased his holding and has kept his intentions veiled.

City Gate profits doubled

By Vanessa Houlder

CITY GATE Estates, a property developer that joined the USM last July, more than doubled pre-tax profits from £2.04m to £5.27m for the year to March 31. Turnover increased from £7.71m to £20.10m.

A revaluation of properties on March 31 demonstrated a surplus of £31m, giving pro forma net assets per share of 602p, before corporation tax.

The revaluation exceeded analysts' expectations and the share price increased by 14 per cent, from 317p to 360p.

Mr James Gulliver, chairman, said that despite forecasts of a generally tougher economic climate, he believed the company would continue its advance due to the quality of its landbank, its locked-in profits from forward sales and the strength of its management.

Mr Andrew de Candole, managing director, said that the company's careful selection of sites meant that it had not experienced problems in selling its properties.

"A company of our size can quickly change its focus to areas where there is no prospect of oversupply," he said.

The company, which was funded under the Business Expansion Scheme in 1985, was initially concerned with reconstructing and converting residential properties in Central London.

In 1986 it switched its focus to commercial developments, mainly in the West End and City fringe. In 1987, a change in planning regulations prompted the company to buy light industrial sites for conversion to offices in the Western suburbs of London.

The company has a total of 14 properties. Two of these areresidential, both of which have been sold forward. During the year the company bought two investment properties, in an effort to increase net asset values and produce a stream of earnings.

The company said that its policy of selling foward had assured 80 per cent of profits in the current year.

At the year end, the company had borrowings of £24.2m, which is 1.3 times shareholder's funds.

The board is seeking approval to split its shares into two, in order to improve marketability. It is also seeking approval to buy up to 14.9 per cent of its share capital.

Fully diluted earnings per share increased by 64 per cent to 44.3p (27p). A final dividend of 7.88p per share was proposed, which gives a total of 11.25p for the full year.

Whitecroft pays £6.2m for conservatory maker

By Edward Sussman

WHITECROFT, the industrial holding company, is adding to its growing building products side by acquiring Finch Conservatories, makers of uPVC conservatories, for a total consideration of £6.2m.

The Cheshire-based company is paying £5.6m cash and issuing 193,548 ordinary shares, which traded at 308p yesterday.

Finch earned £790,000 in the year to December 31 on turnover of £3.3m. Its assets were valued at £547,000 at year end and there were no borrowings.

The acquisition gives Whitecroft a brand name position in a high growth market, the company said.

Finch designs,manufactures and installs the uPVC conservatories for domestic and commercial use. Whitecroft already makes uPVC replacement windows.

Whitecroft, which also has interests in textiles, lighting and property development, has shown strong growth in building products, boosting pre-tax profits in the division to £2.13m (£968,000) at its half year ended September.

The group advanced 25 per cent at the interim to £6.03m.

In July, Whitecroft sold its builders' merchanting interests for £34m, to concentrate ou building products.

Slack housing market slows advance at Christie Group

By Edward Sussman

WEAKNESS in the housing market slowed second half earnings for Christie Group, the specialist business agency, which said pre-tax profits advanced 29 per cent to £4.59m (£3.54m) in the year to April 1. Pre-tax profits had advanced 68 per cent in the first half.

Group turnover rose 43 per cent to £24.56m (£17.23m). Earnings per share were 13.69p (10.84p) and the group recommended a final dividend of 2.6p making a total of 4p.

The group, which came to the main market in July 1988, generates the bulk of its income from the sale of owner-managed businesses such as pubs and hotels.

It was not seeing a downturn in demand but said the pace of conversion into completed transactions had slowed. Since many buyers must sell their houses for financing, the decline in residential housing volume affects Christie.

Mr Philip Gwyn, chairman and holder of 60 per cent, said the downturn had since stabilised. In addition, the group was seeking to expand its base of corporate clients, who were not susceptible to the housing market, and it had trimmed office and staff expenditures.

Christie, which relies heavily on the mailing of catalogues to generate sales, was also damaged by last year's postal strike.

The shares fell 10p to close at 151p, against its 145p issue price. They reached 228p earlier in the year following speculation that the Monopolies Commission's Report on the Supply of Beer would prove a boon to pub sales.

Christie suffered a loss of about £340,000 from its 51 per cent controlled US subsidiary, VR Business Brokers. VRBB was involved in substantial litigation, since settled, and was a cause of concern at the time of the flotation. Mr Gwyn said a new UK management team had returned the franchise operation to profit in the first two months of the current year.

WPP confirms victory in bid for Ogilvy

By Nikki Tait

WPP, the UK-based advertising agency and marketing services group, confirmed that it had won its recommended $864m bid for the New York-based Ogilvy Group.

The offer was extended over the weekend until 10 am New York time last Monday. At that stage, WPP had received acceptances for, owned or controlled over 90 per cent of its target's equity. The rights issue of new convertible preference shares in WPP will now proceed, together with the issue of subscription warrants.

Brunner nav rises

Net asset value at The Brunner Investment Trust was 186.3p at May 31, against 157.3p. Net revenue for the six months was up from £654,000 to £1.13m.

Acquisitions help lift Thorpac to £0.78m

By John Ridding

THORPAC, USM-quoted manufacturer and distributor of freezer and cookware equipment, yesterday announced an increase in pre-tax profits from a restated £299,000 to £776,000 for the year to the end of March on sales 16 per cent ahead at £10.12m.

All of the improvement reflected acquisitions made during December 1988. Coppice Foil Containers, and its subsidiary, Alupack, were included in the figures on a merger accounted basis, and contributed about £700,000 to profits.

The balance came from Michael Freeman, distributor of display board products, which was accounted for on an acquisition basis and contributed for just over three months.

Thorpac, the original company, suffered marginal losses and there were also costs relating to aborted acquisitions.

Since the year end the group has also acquired Avon Tin Printers for £675,000 in cash.

Earnings per share increased from 1.64p to 2.71p and there is an unchanged final dividend of 0.833p to maintain the 1.66p total.

Filofax director resigns

By Philip Coggan

MR DESMOND REANEY has resigned as development director of Filofax, the personal organiser company.

The move follows the resignation of the UK sales and marketing director last December and the appointment of a new managing director, Mr Ray Rankmore.

Mr David Collischon, the group's chairman, said that Mr Reaney's role had changed in recent years and he had decided to return to his publishing interests. Mr Reaney will not be directly replaced.

Filofax has suffered from sluggish sales in the last year and the company's stockbroker has forecast a loss for the six months to June 30.

NSM. Breaking new ground.

NSM, the mining, minerals and building materials group, is now leaner, fitter and stronger.

With the annual results to prove it.

In just 12 months negative earnings per share of 176 pence have been reversed into positive earnings of 8.5p a share.

All our activities are now profitable.

Major acquisitions have been made in the building materials field.

Our management team has been further strengthened.

Year to	31 March 89 £000	5 April 88 £000
Turnover	110,929	84,903
Pre-tax profit	16,517	(29,028)
Earnings per share	8.5p	(176p)
Dividend	3.0p	Nil

And we now clearly target what many will see as major growth areas of the 1990s – low cost power generation, building and refurbishment and environmental management.

In short, there is every reason to look forward with confidence.

UK Mining and Minerals

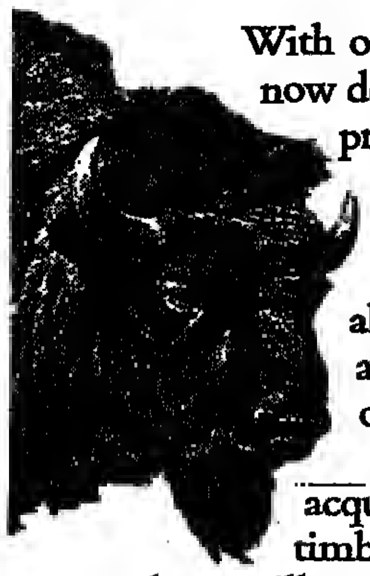
NSM's subsidiary, Coal Contractors Ltd, is Britain's leading producer of private opencast coal. The coal produced is generally of a higher quality than other forms of coal, being lower in sulphur and chlorine.

This makes it more environmentally friendly, more profitable and gives it a more

exciting future than ever before.

Coal Contractors' strengths in opencast mining also make it well placed to take advantage of the projected privatisation of electricity and coal. In addition, the company is expanding production of fireclay, gypsum and other minerals.

UK Building Materials



With our acquisition of Bison we now dominate the fast growing prestressed concrete flooring market.

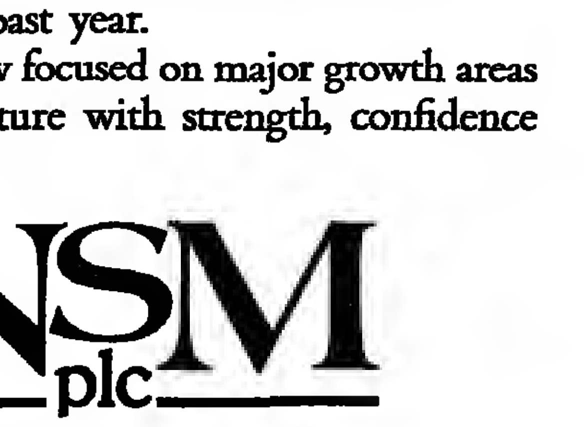
Bison is the market leader in this highly profitable field and its products are used in virtually all types of building.

We have also made acquisitions in plastic and timber building products. These will now be marketed under the Bison name, further enhancing its product range.

US Mining and Minerals

NSM's US subsidiary in Pennsylvania, PBS Coals Inc, specialises in supplying "compliance" (low sulphur) coal to power stations.

80% of all its production is now sold for power generation locally and on the US Eastern seaboard. The company has substantial reserves and stands to benefit from impending acid rain legislation.



Indeed, the future for what has been termed "Green Coal" is outstanding, world-wide.

PBS Coals Inc has also profitably resumed the shipping of metallurgical coal to the Japanese steel industry.

To conclude, NSM has broken a lot of new ground in the past year.

We are now focused on major growth areas and face the future with strength, confidence and purpose.

NSM plc

The 1989 Annual Report will be mailed to shareholders in early July. If you would like a copy please contact The Secretary, NSM plc, Carlton House, Carlton Road, Worksop, Notts S81 7QF.

This advertisement has been approved by Robert Fleming & Co. Limited, a member of the Securities Association, for the purposes of Section 57 of the Financial Services Act 1986.

UK COMPANY NEWS - THE BID FOR GATEWAY

Enigmatic structural variations

Nikki Tait looks at the varied forms of financing behind the rival bids for Gateway

In structure, the £2bn Wasserstein/A & P bid for Gateway shares certain features with the rival £1.87bn offer from Isosceles – but also contains significant differences.

Both offers are leveraged – that is, financed to a very substantial extent by specially-arranged syndicated loan facilities. And in both cases, the total funding package has to extend beyond the pure bid finance itself.

This is in order to refinance existing Gateway debt, put yesterday at around £400m, and to provide working capital for the ongoing company.

In the case of the new offer, the senior debt layer – the syndicated loan facilities – amounts to about £1.7bn with Citibank, the US investment bank, acting as lead underwriter.

Interestingly, Citibank – took a similar role in the previous unsuccessful assault on Gateway from the smaller Barker & Dobson group in 1987-88.

Other banks underwriting the senior debt are Morgan Guaranty, Toronto-Dominion, Security Pacific, and Manufacturers Hanover. Five other banks have come in via the syndication. The senior debt element comprises a number of facilities, with the longest term being seven years.

After the senior debt comes a £500m "mezzanine" finance slug. Mezzanine finance has many forms but, as its name suggests, essentially shares some of the characteristics of both debt and equity with a risk/return profile that falls somewhere between the two.

J P Morgan, the US investment bank, is arranging this element and has underwritten the entire £500m. The appearance of mezzanine financing, common in the US, has been growing feature of UK bids – witness the BDDP offer for BMP and the Magnet management buy-out offer – but this is its most significant use on the UK scene to date.

The third layer is the equity financing. Newgateway, the bidding vehicle, will itself have £500m of equity, subscribed for by Newgateway Holdings.

Newgateway Holdings, in turn, comprises £250m of equity from the Wasserstein Perella partnerships while A & P is putting in £250m of junior subordinated debt.

Wasserstein Perella, the US investment boutique, has a 20 per cent interest in the limited partnerships which it manages and which are contributing the equity element. Its own direct commitment to the offer, therefore, amounts to £50m. WP said yesterday that the other investors in the partnerships were international financial institutions, principally banks.

By comparison, the existing Isosceles package comprises £1.9bn of senior debt, £375m of mezzanine and £200m of equity.

Its equity funding was originally due in come principally from four UK institutions – MAM, Globe, 3i, and Murray Johnstone – some of which would then have been syndicated more widely.

However, in order to give shareholders a chance of continued participation in Isosceles' future, the bidder subsequently decided to make some of that equity available via a cash and paper alternative to its 210p per share cash terms.

Given the number of parties involved in the Gateway situation, it scarcely surprising that the number of advisers should be formidable – although the actual length of the list has a distinctly Transatlantic flavour.

A & P is advised by N M Rothschild and Dillon Read; WP Management, which runs the WP limited partnerships, by Wasserstein Perella and Samuel Montagu; and Gateway by Lazard Brothers, Lazard Frères and Morgan Grenfell. Over on the other side, Isosceles has S G Warburg as its merchant bank advisers.

Yesterday, no one in the new bidder's camp was anxious to specify the level of fees involved in the WP/A & P initiative – although Gateway has previously attacked Isosceles for incurring reported costs of £60m, or 7p per share, in the event of success. What can probably be safely said is that the cost of escape will not be cheap either.

The steely retailer partly hidden by a lackadaisical mask

By David Waller and Anatole Kaletsky

MR JAMES Wood, chairman and chief executive of A & P and soon to be chief executive of the Gateway group, is the archetypal "mid-Atlantic" businessman, with homes in New Jersey and Northumbria and an accent positioned somewhere between Newcastle and New York.

It looks as though he will be spending a little more time over on this side of the ocean if the Gateway deal goes through, although when asked just how many days a week he will be dedicating to the UK stores group, he just shrugs his shoulders.

With his legs drooped over his chair, and a relaxed Geordie/Big Apple drawl to his voice, his manner is casual, almost lackadaisical. But no one should be taken in by this: there is a steeliness to his character which is obvious in anyone who has a look at his career.

He has been in the retail business for 45 of his 59 years. The son of a Tyneside building contractor, he started his working life at the age of 14, stocking shelves for a Co-Op corner shop in Newcastle. He worked for the Co-Op until 1965 when he joined Jimmy Goldsmith, rising rapidly to become head of Grand Union, Cavenham Foods' US supermarket chain.

In 1980, he joined the Great Atlantic and Pacific Tea Company, an American institution which had fallen on somewhat hard times.

When it was founded, in 1859, it was – as the very first discount store, selling tea at rock-bottom prices – at the forefront of the retail sector. By 1929, it was the US's second largest company after General Motors. By 1979, it was losing vast amounts of money.

In fact, A & P lost no less than $43m in 1980. With the help of a rationalisation plan radical by any standards, he has turned this into a profit of $127m in 1988.

He closed 500 stores, slashed 20,000 jobs and shut down all the company's food manufacturing businesses. He was granted options over 1.1m shares when they stood at $4 apiece; now they stand at $60 and he owns 5 per cent of a company capitalised at over $2bn.

According to Mr Edward Comeau, retailing analyst at Oppenheimer & Co, Mr Wood has a three step "commonsense approach" to turning around supermarket operations.

First, he is never reluctant to sell assets and is skilled at getting the best price for the ones he does not want.

Secondly, he installs extremely effective financial control systems on a store by store basis. Unlike many supermarket groups which monitor only a few financial variables like sales, labour costs and costs of merchandise on a regular basis, Mr Wood requires a weekly profit and loss statement from every store covering about 25 more detailed items such as rents, utility costs, coupons, discounts and marketing expenses. This enables him to identify areas of underperformance and market opportunities more quickly than many competitors.

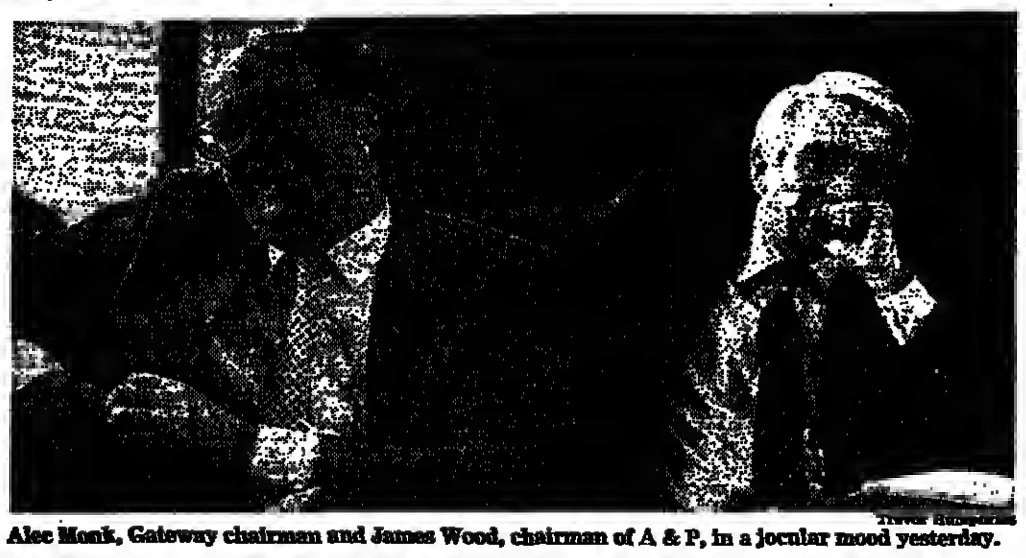
Thirdly, A & P runs a highly regarded "hospital programme" on stores which underperform, sending in specially-trained teams of internal consultants who are often able to generate turnrounds with surprising speed.

Obviously all of these skills could come in useful in revamping Gateway, although it is worth recalling that many of the same claims were made for Mr Monk when he was originally expanding Dee.

Where A & P is weaker, according to Wall Street analysts, is in the marketing skills required to generate internal growth and produce higher profits by shifting sales towards high-margin items like delicatessen and fresh produce. "A & P is not on the cutting edge of merchandising and market innovation", says Mr Comeau.

Ms Susan Spielberg of Shearson Lehman Hutton notes that "enthusiasm for A & P is dampened by the lack of meaningful internally generated sales growth" in recent years.

"Alec [Monk] is a wheeler-dealer who has put a number of good old chains together," Mr Wood observed yesterday, "but it's a different matter to create a single culture for all the stores at ground level. He's well liked by the people he works with, if not by the City, but he needs a lot of help getting a new strategy together. Together, we'll get things done".



Trevor Humphries

Alec Monk, Gateway chairman and James Wood, chairman of A & P, in a jocular mood yesterday.

German muscle behind A & P

By Haig Simonian

THE TENGELMANN group, which holds a 52 per cent stake in A & P, the joint-bidder for Gateway, is one of West Germany's biggest retailers, with total sales of just under DM 35bn in the 1987-88 financial year, up from DM 30bn in the previous year.

Among its best-known trading names in its home market, apart from Tengelmann itself, are Kaiser's Kaffee (coffee), kd (drug stores) and PLUS, (a leading discounter). It is based in the industrial city of Mülheim in the Ruhr.

However, like many large West German retailers, Tengelmann has become increasingly constrained domestically on account of monopoly restrictions and extremely tough zoning laws, which in particular, severely limit the opening of new out-of-town supermarkets. Hence a growing stress on foreign expansion.

Some 57 per cent of Tengelmann's turnover already stems from foreign business, notably its stake in A & P, in which it first took an interest in 1979. Tengelmann has also expanded in Europe and already owns Hermans, a 144-store chain which is the Netherlands' fourth biggest retailer, and Löwa Warenhandel, an Austrian food retailer.

Together, the group has over 4,800 stores around the world, some 3,600 of them in Europe. The European workforce currently amounts to about 62,000 employees.

Yet despite its size and internationalisation, Tengelmann itself remains something of an enigma. Its guiding light and sole owner is Mr Erivan Haub, the 56-year old direct descendant of the Schmitz-Scholl family which founded the company, named after their attorney, Emil Tengelmann, in Mülheim in 1867.

Moreover, like a number of other leading West German retailing or mail order companies, such as Aldi or Otto Versand, Tengelmann is not only still in private hands, but also distinctly publicity-shy.

While by no means as secretive as Aldi, West Germany's biggest food retailer and its neighbour in the Ruhr, Tengelmann's information flow is also carefully screened.

For example, press enquiries tend only to be handled in writing. Financial information is often similarly selective – a privilege of privately-owned companies in West Germany.

Disclosures about profitability are conspicuous by their absence. The reason, according to Ms Rosemarie Baumeister, its press chief, is that "Tengelmann deliberately declines to publish its results mainly for competitive reasons".

Continuous Stationery edges ahead

A RELATIVELY static performance was reported by Continuous Stationery, the business forms and stationery group which takes in the Prontaprint operation, in the 12 months to March 31 1989.

Turnover expanded 74 per cent to £17.16m (£9.87m), but pre-tax profits showed only a slight improvement to £1.14m (£1.08m).

The profits figure, however, was struck after exceptional debits of £498,000 (credit of £243,000), and increased interest charges of £126,000 (£57,000).

At the operating level, profits were more than doubled at £1.76m.

Prontaprint was included from May 1988 and made a "very satisfactory and promising maiden contribution" according to Mr Bill Eastwood, chairman.

In contrast, the business forms side was affected by losses incurred at the Fairfield operation in Hampshire, reducing divisional profits to £800,000 (£850,000). The division has subsequently been regrouped and no further adverse effects on trading were anticipated, Mr Eastwood said.

He added that trading for the first two months of the current year had been satisfactory and ahead of the same period last year.

Earnings per 10p share dipped to 4.98p (5.36p), but the total dividend is raised 0.5p to 3.5p via a final of 2.8p.

Exceptional charge trims Welpac rise

Welpac, the USM-quoted hardware, DIY and electrical products packager, yesterday reported a modest rise from £931,000 to £981,000 in pre-tax profits for the year to end-January. Turnover rose from £10.1m to £11.03m.

The figure was struck after an exceptional charge of £72,000 relating to expenses incurred in the design and implementation of a new packaging range.

The directors said that while the group was trading satisfactorily, demand in the retail sector was likely to remain at present levels until interest rates were reduced.

Earnings per 7p share were 2.39p (2.41p) and the single dividend is a same-again 0.55p.

Reliance Security tops £2m mark

Reliance Security Group, USM quoted provider of manned security services, achieved an 18.6 per cent increase in pre-tax profits to £2.07m for the year to April 7 1989.

Turnover increased from £30.62m to £34.16m, and earnings per share were up from 10.9p to 12.9p.

A final dividend of 4.25p was proposed, making 5.75p (4.75p) for the year.

UK COMPANY NEWS

Feeling the effects of a technology shift

Paul Abrahams assesses the reasons for Crosfield Electronics profit fall

CROSFIELD Electronics is used to announcing nothing but good news at its annual press conferences. Until recently it has been the fastest growing and most profitable division of De La Rue, the security printer and manufacturar of sophisticated printing technnlogy.

But at today's conference Mr Jim Salmon, Crosfield's managing director and deputy chief executive at De La Rue, will be facing some hard qnestions about the division's latest figures which contain little but bad news.

He will be trying to explain wby profits dropped from £21.1m in 1987 to £5.2m last year. The decline included a loss of £1.1m in the second half, which helped drive De La Rue's overall profits down by 57 per cent. When the results were announced earlier this month, De La Rue said it was looking for a strategic partner for Crosfield.

Since then it has emerged that customers and competitors were surprised by some of tha explanations given by Crosfield for the downturn. In particular, attention has been drawn to the colour graphics side which generated about 53 per cant of tha division's tnrnover last year.

Customers accept that margins in the market for scanners, used to input images into computers, will have been affected by increasing price competition in the Far East and elsewhere. However, the reasons given for the decline in sales of electronic page composition machinas, used to manipulate digital images in preparation for printing and whicb sbould offer greater opportunity for margins, are raising eyebrows.

The first reason given by Crosfield was that there had been an industry-wide trough in orders caused by doubts about the US election last year.

However, Scitex, the Israeli-based company controlled by Mr Robert Maxwell, and Crosfield's main competitor in the market, increased revenues in the US by 28 per cent during 1988. Scitex is more dependent upon the US than Crosfield with 39 per cent of last year's revenues coming from this area compared with Crosfield's 31 per cent.

Customers also doubt that high interest rates, blamed for the down-turn in sales, had affected purchasing decisions. Mr Stephen Wells, production director at Electra Graphic Systems, one of London's largest independent reprograhics companies, rejected the idea.

"The reprographics industry is driven by the need to keep up with the Joneses," he explains. "If you are going to keep your clients in the main advertising companies happy, you have to install the best, quickest and most up-to-date equipment."

Mr Wells and other customers believe that the one of the main reasons for Crosfield's problems lies in a technology shift. De La Rue mentioned the point earlier this montb when it said that the business was prone to volatility during periods when new products were being introduced.

Crosfield is introducing a new range of products, called the Studio 9500 series, based on 32-bit micro-computer technology. It should increase the company's margins because it is cheaper to manufacture than the aarlier mini-computer-based products.

However Scitex launched a similar 32-bit platfnrm 18 months ago and completed the range at the end of last year. The launch of the complets Studio 9500 range, which was announced well behind Scitex's equivalent, has been delayed by three months after problems with tha design of the application-specific integrated circuits (Asics) necessary for the machines. The launch is now expected to be completed in October at tbe Chicago-basad trade-sbow, Graphexpo.

Because of Scitex's earlier launch and the delays in delivering its own system, Crosfield has been left compating against Scitex's np-to date micro-computer technology with mini-computer systems which are often more expensive for the customer to install because they require special air-conditioning.

These older machines are also more expensive to mannfacture than the micro-compnter systems, and analysts believe that the rise in Crosfield's sales at the end of its financial year – after disastrous sales between October and January – was only achieved through beavy discounting on already tight margins.

Scitex says thet the main result of the technology gap has been that some significant Crosfield cnstomers have purchased Scitex electronic page composition systems.

Mr Jim Salmon admits, for axample, that Wace, the world's largest pre-press company, which has had close relations witb tbe division, recently purchased about £6m worth of equipment from Scitex.

However, he insists that this is part of tbe swings and roundabouts of the market and that tha technology problem must be kept in proportion. He points out that Crosfield recently beat Scitex and Atex for a large contract at the Baltimore Sun for news publishing equipment. This sector forms nne of Crosfield's other business segments and made up 9 per cent of its revenues last year.

However, Mr Charles Pick, an analyst at the Nomura Research Institute in London, points out that the downturn in the Crosfield's profitability suggests that its diversification into areas sucb as news publishing has not yet reduced its vulnerability to the cyclical nature of the colour graphics industry. He says the division is still heavily dependent upon colour graphics and the sector seems to have moved from wave to trough.

"Without a doubt, Crosfield is caught in a technology gap," says Mr Pat Malvaney, divisional managing director at Wace. "Its experience is a carbon-copy of what happened to Scitex in 1986 when sales collapsed before it launched its new generation of equipment."

In the meantime, Mr Salmon says De La Rue is looking for a strategic partner with a complementary set of skills which would be willing to take a 50 per cent stake in Crosfield.

He says tbat Crosfield is capable of sustaining itself, but that it needs to make sizeable acquisitions. However tbe level of funds available from De La Rna are insufficient.

Mr Salmon indicates that partnership talks are being focused on one particular partner, but he will give no hint of who it might be. A possible candidate is Mr Robert Maxwell who already has a 15 per cent stake in De La Rue. However, Mr Arie Rosenfeld, president of Scitex, says that anti-trust legislation migbt block such a move. Another potential candidate is Fuji of Japan.

All-round growth lifts Volex to over £9m

GROWTH THROUGHOUT its range of operations prompted a 39 per cent expansion in taxable profits et Volex Group in the year to end-March 1989.

The Salford-based electrical controls and communications systems manufacturer posted the increase – np from £6.57m to £9.14m – on turnover ahead 23 per cent to £102.59m (£83.43m).

Mr Peter Frost, chairman, said the ontcome was attributable to carefully cnntrolled overheads and expenses. Operating margins improved from 8.8 per cent to 9.7 per cent, he added.

The group did not break down the results by division, but Mr Frost said that volume growth was achieved in all divisions witb the smallest increase being recorded in electrical accessories.

Shareholders' funds at the group's year end were 28 per cent higher at £32.1m and gearing reduced nver the period from 29 per cent to 15 per cent. This left Volex "ideally positioned to fund future expansion, whether internally or by way of acquisition" he said.

Earnings per sbere advanced to 44.4p (35.5p) and the proposed final dividend is lifted to 10p for a total of 16p (12p).

Kleinwort Charter

The net asset vaine of Kleinwort Charter Investment Trust stood at 181.6p at May 31 compared witb 151.3p a year earlier.

Gross income for the six months rose from £2.8m to £3.33m. Earnings per share were 2.14p (1.75p). The interim dividend is 1.075p (0.95p).

NSM in takeover talks as it returns to profit with £16.5m

By David Waller

NSM, the recently restructured private coal mining group which used to be known ss Burnet & Hallamsbire and which is 26 per cent owned by Anglo United, bas been approached by Anglo as a possible buyer for parts of Coalite, the fuel distribution group fnr which Anglo has launched a £427m leveraged bid.

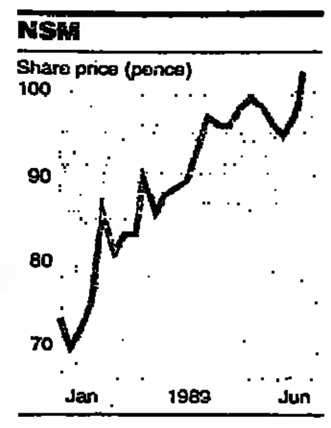
Speaking as NSM revealed a turnround from a pre-tax loss of £29m in 1987-88 to a profit of £16.52m in 1988-89, Mr Dnn Carr, chairman, said that his company had talked to United – and acknnwledged that Coalite contained a number of businesses which would fit its long-term strategy.

These included Coalite's minerals activities, its cement substitute business and its waste disposal subsidiary. However, Mr Carr insisted that no formal bid had been made for any of these and, moreover, that NSM was now run wholly independently of Anglo.

This was in spite of the fact that Mr David McErlain, chairman of Anglo, and annther Anglo director still sit on the NSM board. As part of the complex restructuring at B&H – for wbicb Mr McErlain is widely credited – Anglo ended up with its large stake in NSM.

Mr Carr said yesterday that NSM owned no shares in Coalite, but did concede that Coalite had been among e number of companies he had talked to about a possible merger over the past year; he declined to be more specific.

Tha fruits of the rationalisation were seen in yesterday's figures for the year to the end of March. Turnover rose from £84.9m to £110.93m and operating profits catapulted from £2.76m to £30.77m. A loss of



176p per share turned into earnings per share of 8.5p; a dividend of 3p per share is proposed, the first payout nn the nrdinary share capital for almost five years.

The results benefited from a six mnnths contributinn from Bison, tbe concrete flooring company which NSM bnught last September for £82.5m. This chipped in some £7.7m to the operating profits, while the mining businesses in the US and tbe UK made £13m between tbem.

The previous year's operating profit on the cnntinuing businesses was £2.76m; the UK side then made £6m but the US was loss-making.

The interest bill dropped from £4.65m tn £4.26m; with net borrowings of £28m, gearing at the moment stands at 31 per cent.

JE England

J. England Group lifted pre-tax profits from £16,240 to £284,818 for 1988. No dividend was proposed - none have been paid since 1983.

Property increase behind Markheath's 15% rise

By Ray Bashford

MARKHEATH, the British investment vehicle for Mr John Spalvins, the Australian businessman, boosted pre-tax profits 15 per cent to £11.7m during the year to December 31.

The value of the company's property portfolio increased 28 per cent to £90.8m (£70.7m), of which 76 per cent is let.

On a gross profit basis, income from investment properties was £1.9m (£966,000) and income from development properties £1.3m (£668,000). Surplus on disposal of investments was £2.4m (£3.7m).

Net assets per share increased 32 per cent to 86.7p and earnings per share rose 7 per cent to 13.02p.

Markheath added properties in Regent Street and Tavistock Place in central London to its investment and development portfolio during the 12 months under review. It also made purchases in Chiswick, Southgate and South Harrow.

The policy of investment in UK companies continued. The two principal disclosed investments are a 26 per cent stake in Camford Engineering, the Stevenage-based motor components group, and 16 per cent of Frogmore Estates.

Mr Spalvins said yesterday that Markheath was a long-term investor which was not interested in break-up situations.

Directors have recommended a final dividend of 3.50p (2.50p) which with the improved interim of 1.5p lifts the total for the year to 5p.

GEI Intl expands 24% to £6.55m

A 24 per cent improvement in pre-tax profits from £5.28m to £6.55m was announced by GEI International, specialist engineering group, for the year to March 31. And, with the figures for April, May and the first part of June, Mr Thomas Kenny, chairman, said he was confident that next year would show a further increase.

A final dividend of 4.4p (3.91p) is recommended for a 6.54p (5.85p) total. Earnings worked through at 11.4p (9.5p) per 20p share.

Although turnover fell from £81.9m to £72.23m the cost of sales dropped £10m to £52.76m. Operating expenses were also lower at £12.96m (£13.83m).

Tax took more at £2.39m (£1.85m) and there was an extraordinary £677,000 credit (£1.87m debit). Some £675,000 (£982,000 loss) of this related to the disposal of businesses within the engineering products division.

Seafield £1.98m buy

Seafield is to acquire Peter Downing (Worksop), a haulage and warehousing group, for a total consideration of £1.98m.

COMMODITIES AND AGRICULTURE

Strike may force Irish zinc mine to close

By Kieran Cooke in Dublin

A STRIKE at Tara Mines in the Irish Republic could force the closure of what is said to be Europe's biggest zinc mine.

The management said that if 19 underground crusher operators continued with their strike the mine, about 30 miles north of Dublin, would run out of ore and operations would be halted.

The crusher workers want extra bonuses for operating new equipment. The intervention of the Irish Labour Court failed to stop the workers going ahead with their strike. The management has issned protective notice to more than 700 employees but says it are hopeful that operations will be continued. An official said the mine was now operating on "a day to day basis."

In the past there have been a number of labour disputes at Tara. The company was also involved in a long running argument with the Irish Government over the terms of its operating lease and with another mining group over mining rights.

In April the Irish Government sold its remaining 25 per cent stake in Tara Mines to Outokumpu, the Finnish state mining concern, for $50m. At the time of the sale the Government admitted that it had not received "a brass farthing" in royalties from Tara since taking up its stake in 1975.

Outokumpu bought the other 75 per cent of the company from the Canadian registered Tara Exploration Company in 1986. Recently Tara was said to have been making substantial profits following the streamlining of some mining operations and through rising zinc prices on the world market.

● The price of special high grade zinc for immediate delivery rose by $45 to $1,805 a tonne on the London Metal Exchange yesterday, mainly reflecting worries about a walk-out by employees at the zinc refinery of Metallurgie Hoboken-Overpelt in Belgium in support of striking colleagues at the group's copper refinery. This stoppage of refined zinc output is likely to have a quicker impact on supplies than the dispute at Tara which produces zinc in concentrate.

The market also took in its stride news that mineworkers in Peru, which produces about 11 per cent of the non-Communist world's zinc and about 6 per cent of the copper, have called a nationwide, indefinite strike probably from August 14. A three-day strike in April had only partial success and observers suggested the Mineworkers' Federation was split about whether to call a strike.

Brazilian sugar-alcohol strategy turns sour

John Barham describes the problems of a fuel policy which was once the source of immense pride

NEVER IN its tortuous history has Brazil's sugar and alcohol industry suffered such chaotic mismanagement as it has in recent months.

In May, the country's ambitious alcohol programme faced collapse as supplies of the alternative fuel began drying up, and the shortage is far from over.

In March, the president of the country's Sugar and Alcohol Institute (IAA), which oversees the sector, resigned following reports of corruption in closing export contracts. And at the beginning of June, Government dithering over sugar export policy disoriented the market.

The sugar industry and the 14-year-old alcohol sector the IAA is meant to command, are vital to Brazil. About 4m cars are fuelled by alcohol distilled from sugar cane and sugar production is the mainstay of many regions of the impoverished northeast of Brazil.

Despite its importance, the IAA, which was founded over 50 years ago, has lapsed into decay. The sector it controls so ineptly is riven with often astonishing inefficiency and waste that Brazil can ill afford at a time of severe economic trouble.

Tha single most important cause of the sector's problems is that, because it operates so uneconomically, it can only survive with government co-ordination and subsidies. When the Government fails to carry ont its command role adequately, the entire system runs the risk of collapse.

The institute tells producers how much cane to grow, how much to turn into alcohol and how much into sugar and how much of the sugar can be exported. It is one of a plethora of government agencies that organise the astonishingly complex subsidy and pricing structure that keeps the vast alcohol distilleries of southern Brazil in business and allows the survival of inefficient sugar producers in tha northeast. Until this week, the IAA also acted as sole agent for Brazil's sugar exports. Copersucar, an important Sao Paulo sugar and alcohol co-operative, says waste, inefficiency and export trading losses cost the institute US$150m to $200m a year.

The sugar and alcohol sector is riven with often astonishing inefficiency and waste that Brazil can ill afford at a time of economic trouble

The Government had tried to close the IAA altogether as far back as 1985, when an audit by the accountants Price Waterhouse uncovered dozens of cases of corruption and embezzlement. But the weak Government of President Jose Sarney backed down because of political pressure. Politicians treasure organisations like the IAA, because they are invaluable vehicles for patronage. In 1987 the Government decreed an end to the institute's export monopoly, but squabbling among producers, politicians and bureaucrats forced it to postpone the measure for a year. Congress finally approved privatisation early this month, only minntes before the proposal was due to lapse.

The IAA is too inefficient to defend Brazil's interests in the export market. Mr Gustavo Maranhao, president of a cane growers' association in the northeast, said northeastern exporters would be able to negotiate contracts that more than covered their costs. He said the institute lost an average $90 on every tonne of sugar it exported.

Mr Maranhao is an enthusiastic supporter of free trade. "We are in favour of free enterprise," he said. "We want freedom to export without subsidy and without taxes."

By tradition, only the northeast is allowed to export sugar, a privilege it is unlikely to lose in the foreseeable future. Bnt Mr Maranhao opposes an export tax to finance sugar buffer stocks that would even out the often violent price fluctuations in the sugar market.

However, the export privatisation law guarantees that the Govarnment will "ensure under any circumstance, the continuation of the sugar and alcohol industry's production in the northeast." Mr Reynaldo Alcantara, a specialist in export at Sao Paulo's Copersucar co-operative, said the northeast "has the right to make money now that the market is strong, but it also has a law protecting it from bankruptcy when the price comes down."

The Sao Paulo producers say they will be called upon to bail out the northeast when prices eventually subside. Their misgivings have slowed down progress toward privatisation.

Sugar is just too important to the politically powerful northeast to be fully exposed to the harsh winds of free enterprise. Sugar generates between 25 and 30 per cent of the region's income and its most powerful politicians are invariably sugar barons.

The northeasterners are not the only group to have abused the IAA over the years, but they are certainly the most prominent. Last year the state-owned bank in one northeastern pauper state collapsed under the weight of uncollectable loans it had made to millionaire sugar producers.

In Sao Paulo, police found that companies had diverted government subsidies to build alcohol distilleries to more profitable ends. Sugar producers throughout the country are known to cheat the institute out of millions of dollars every year, but the institute hardly ever prosecutes offenders. Neither does it try to recover misappropriated funds. Producers owe the Government over $1bn in dishonoured loans. Foreign trading houses are accused of abusing export regulations and obtaining suspiciously generous export contracts. The IAA is under severe criticism for having signed contracts to export some 1.7m tonnes of sugar over the coming four years, sometimes at prices fixed at a fraction of the current market level.

Mr Christopher Rohl, the Rio de Janeiro representative of Sucres et Denrées, an important French commodity trader, said the trouble with doing business with the IAA "is that things change a lot – ministers, officials change and you have to reconvince people all the time. Most people in the business are just not commodity-oriented." Misunderstandings cause unjustified accusations of wrongdoing.

Although the institute is frequently said to be among the most corrupt in Brazil, Mr Rohl said that "the IAA has done a good job, despite its problems. It does not have highly paid staff and it can't afford the best and we do have problems explaining ideas to peopla. After six to eight months, they start learning and things start moving and suddenly they're gone." The IAA has had six presidents in four years.

Ineptitude in the export market may be highly damaging – Brazil shipped $345m worth of sugar in 1988, equivalent to 1 per cent of all its exports that year – but it is not nearly as catastrophic as the crisis facing the alcohol industry.

Unlike sugar production, which could be made profitable, but has a limited role in the economy, the alcohol industry is profoundly uneconomic, but has a wide-ranging impact on daily life. Mismanagement only makes the situation far worse. Alcohol is just too expensive to become economically viable, but it absorbs 90 per cent of Brazil's annual sugar cane output of 241m tonnes.

When the policy was introduced in 1975, Brazil was prosperous and the alternative fuel was a source of immense pride. Now it is widely attacked for draining scarce resources that the country can no longer afford to squander.

One barrel of alcohol costs $45 to produce, twice the cost of a barrel of petrol. But the Government sets the price of alcohol at 25 per cent below the price of petrol. High petrol retail prices subsidise the high cost of distilling alcohol.

Obviously, if this policy were to continue, there would eventually be no more petrol-driven cars left to cross subsidise alcohol cars.

Worse still, the Government's efforts to control inflation have created a severe alcohol shortage. It has held the retail price of alcohol and the price paid to cane producers artificially low, even though that has discouraged production and encouraged consumption. Output has increased by a quarter since 1985, while demand has risen by two thirds.

The chickens came home to roost in May, when the Government's strategic stocks were exhausted and shortages began to afflict even the key alcohol producing regions. Since then, snpplies have improved. But producers still say they are not being paid enough and warn that shortages could continue.

The Government has realised that the only immediate answer to the alcohol problem is to decree a reduction in the production of alcohol-fuelled cars, to the fury of the car companies. In 1987, 94 per cent of Brazil's cars were built with specially developed alcohol engines. By next year, only half of all new cars are to run on alcohol.

The worsening imbalance in alcohol and petrol consumption has led to the absurd situation of Brazil generating a 5bn litre petrol surplus every year, but facing a shortage of alcohol, the home grown fuel that was to free it forever from dependence on expensive foreign oil. Yet Brazil must cut alcohol output by half to absorb 6.5bn litres a year, to absorb the petrol surplus.

Brazil is stuck with the alcohol programme it has cost too much to set up and become too large to scrap. Technological improvements can substantially reduce the cost of alcohol. But that is of little use while the IAA's rigid controls remain in place.

The institute's rules actually discourage the greater efficiency that could save the alcohol programme, because higher productivity would lead distilleries to bump up against their production ceilings. And since the institute's prices are set to reward even the least efficient producer, modern and well-organised distilleries are making massive profits without having to try hard.

Commodity fund established by UN

THE UNITED Nations has formally established the Common Fund for Commodities, a financial institution that a senior official said had great political importance for international economic co-operation, reports Reuter from New York.

Mr Kenneth Dadzie, secretary-general of the UN Conference on Trade and Development (Unctad) said: "It augurs well for renewed efforts to deal with the problems of developing countries. . . dependent on the export of primary commodities."

The US is the only major Western nation that has not ratified the pact, members of which account for 67.16 per cent of fund capital. More than 100 of them met here for the official launching. A UN official said President Jimmy Carter's Administration signed the original pact but his Republican successor decided not to ratify it.

Amsterdam and Brussels are bidding to provide the fund's headquarters and candidates from Egypt, India, Nigeria, Ghana, Indonesia, Bangladesh and Denmark are running for managing director of the fund. Choices are to be made at the first governing council meeting next month in Geneva.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,000-2,100 (1,850-1,950).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 5.45-5.80 (6.20-6.35).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 6.00-6.50 (6.30-6.70).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.45-7.65 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 240-255 (245-260).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.70-3.75 (3.65-3.75).

SELENIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 6.40-7.00 (6.50-7.20).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3 cif, 51-64 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 5.80-6.10 (6.10-6.50).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.85 (same).

Tin case ruling to go to appeal

TWO SHEARSON Lehman Hutton companies are to challenge in the Court of Appeal a High Court ruling in March upholding tha validity of the so-called ring-out price rule brought in by the London Metal Exchange following the collapse of the international Tin Council, writes Raymond Hughes.

The rule fixed a price for tin which overrode outstanding contract prices.

Mr Justice Webster ruled that the LME had had tha power to suspend tin contracts and make the rule.

The decision is to be challenged by Shearson Lehman Brothers, a trading company owned by American Express, and its metal broking subsidiary, Shearson Lehman Metals.

UK milk monopoly 'seems certain to disappear'

By Bridget Bloom, Agriculture Correspondent

Further quota cuts and better quota management led to a 3 per cent drop in the volume of milk for sale in England and Wales in the year ending March 1989, but the amount available to be paid out to producers rose £106m to nearly £2.06bn, Mr Bob Steven, the Milk Marketing Board chairman, announced yesterday.

The improvement was largely due to continued strengthening of the manufacturing price for milk, which resulted from the removal of surpluses and further industry rationalisation, he said.

It was the first time in a decade that the wholesale producer price, averaging 18.039p a litre, had matched, let alone beaten, inflation.

THE ADVENT of milk production quotas and the falling away of frontiers within the European Community have made the monopoly exercised by Britain's milk marketing boards not only anomalous but harmful to producers and consumers, according to a report published this week by Agra-Europe, the independent intelligence agency.

The monopoly seems certain to disappear with the advent of the single EC market, the report says. But it was not clear whether this would happen as a result of voluntary action by each board, through the EC Commission withdrawing monopoly rights or "in a disorderly fashion by a combination of court judgements and breached legal agreements."

The report, by barrister Richard Pool, notes that the boards now bear little resemblance to the bodies the Community thought it was authorising in 1978 and 1979, when it was agreed that their principal function was to assure a stable market for liquid milk. The boards' acquisition since then of a dominant position in liquid milk processing and distribution had greatly altered the position.

The report notes the "deliberate misconceptions fostered by both the UK and the Community" as the two strove to find political compromise between the Commission's insistence on establishing a common milk regime and the UK's on retaining the boards.

Reviewing the currently disputed legal issues relating to the boards, the report argues that reform of the existing system is urgent, particularly to meet complaints to the Commission about the statutory and commercial activities of the boards, as well about the largely unappreciated rights of producers to market and export milk outside the board monopoly.

Changes are inevitable but, the report concludes, the task for officials in London, Belfast, Edinburgh and Brussels is to find ways of moving from regulation to competition without provoking farmers' anger or legal actions for damages or distorting trade.

● Settlement has been reached out of court between the Milk Marketing Board of England and Wales and the Irish Dairy Board over the legality of the MMB's dual pricing system for milk manufactured into butter between 1981-84. The Dairy Board claimed damages of some £12m for breaches by the MMB of EC law and regulations.

The UK Milk Market: Change and Opportunity. Agra Europe, 25 Frant Rd, Tunbridge Wells. Kent. £35

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER prices fell on the LME yesterday afternoon in sympathy with Comex and a rally in the dollar. The market closed at tha day's low, with three-month metal at £1,682.50 a tonne, equivalent to $2,581. Dealers said prices ran into stiff resistance at the $2,600 to $2,620 level. Some analysts say a conclusive breach of that area would imply an aventual move to $2,600. Renewed stimulus has come from the Belgian producer force majeure, concern over North American labour contract negotiations and a fresh strike threat from Peruvian workers, traders said. Aluminium prices were also down. IPAI production figures for May showed non-communist output still running at a high level and this may have discouraged buyers later in the day, traders said. Lead prices retreated — nearby supply tightness has eased.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$14.30-4.40w	+.225
Brent Blend	$16.60-6.65v	+0.10
W.T.I. (1 pm est)	$19.03-9.08w	+0.33
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$107-193	+1
Gas Oil	$136-138	+1
Heavy Fuel Oil	$83-85	
Naphtha	$160-162	+2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$366.00	-0.25
Silver (per troy oz)♣	533c	-4
Platinum (per troy oz)	$498.00	+5.75
Palladium (per troy oz)	$154.25	+1.50
Aluminium (free market)	$1930	-5
Copper (US Producer)	119⅝-126c	+8
Lead (US Producer)	38.00c	
Nickel (free market)	535c	
Tin (European free market)	$10125	+50
Tin (Kuala Lumpur market)	26.50r	+0.03
Tin (New York)	465.5c	+3.0
Zinc (US Prime Western)	80½c	
Cattle (live weight)†	116.51p	-4.00*
Sheep (dead weight)†	164.29p	-28.2*
Pigs (live weight)†	82.75p	-8.65*
London daily sugar (raw)	$323.8x	-2.2
London daily sugar (white)	$393.5x	-3.0
Tate and Lyle export price	£322	-4
Barley (English feed)	£105.75w	+1.25
Maize (US No. 3 yellow)	£131.5	
Wheat (US Dark Northern)	£132u	
Rubber (spot)♥	60.50p	
Rubber (Jul)♥	66.25p	+0.23
Rubber (Aug)♥	67.00p	+0.25
Rubber (KL RSS No 1 Jul)	255m	+1
Coconut oil (Philippines)§	$555z	
Palm Oil (Malaysian)§	$375v	
Copra (Philippines)§	$355	
Soyabeans (US)	£210v	
Cotton "A" Index	79.45	-0.40
Wooltops (64s Super)	623p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. v-Jul. u-Jun/Jul. x-Jul/Aug. w-Aug. z-Aug/Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Jul	802	805	803 792
Sep	823	823	824 809
Dec	876	873	876 863
Mar	866	868	870 858
May	876	877	879 868
Jul	894	892	
Sep	907	908	908 896

Turnover:3228 (4556) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 19 1005.50 (1017.52) :10 day average for Jun 20 1003.42 (996.55)

COFFEE £/tonne

	Close	Previous	High/Low
Jly	1123	1127	1124 1112
Sep	1082	1087	1082 1072
Nov	1088	1081	1084 1070
Jan	1100	1102	1094 1091
Mar	1112	1110	1110 1096
May	1115	1130	1100

Turnover:1424 (2556) lots of 0 tonnes
ICO indicator prices (US cents per pound) for Jun 17: Comp. daily 100.21 (101.87) . 10 day average 103.29 (110.46)

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Aug	285.40	290.00	292.80 284.60
Oct	285.00	286.60	290.00 282.00
Dec	278.00	285.00	281.00
Mar	268.20	270.40	271.60 267.00
May	267.00	269.00	269.00 266.80
White	**Close**	**Previous**	**High/Low**
Aug	381.00	384.00	387.50 380.00
Oct	352.00	355.00	357.00
Dec	344.00	347.00	
Mar	332.00	335.00	331.00 330.00

Turnover: Raw 6890 (10473)lots of 00 tonnes. White 1957 (1334).
Paris- White (FFr per tonne): Aug 2580 Oct 2367, Dec 2285, Mar 2240, May 2235, Aug 2230, Oct 2100.

CRUDE OIL $/barrel

	Close	Previous	High/Low
Aug	16.35	16.22	16.45 16.25
Sep	16.18	16.08	16.28 16.14
IPE Index	15.17	16.12	

Turnover: 5052 (5057)

GAS OIL $/tonne

	Close	Previous	High/Low
Jul	136.50	136.50	136.50 135.00
Aug	134.25	135.25	136.25 134.00
Sep	135.50	135.75	136.70 135.25
Oct	137.25	137.00	138.00 136.50
Nov	138.75	138.25	139.50 138.25
Dec	140.00	139.25	

Turnover 4296 (3292)lots of 100 tonnes

COTTON

Liverpool- Spot and shipment sales for the week ended June 16 amounted to 255 tonnes against 698 tonnes in the previous week. Slow trading ocurred with interest in Israeli, American, West African and Pakistan growths.

JUTE

C and f Dundee: BTC $550, BTD $460, BWD $490, c and f Antwerp: BTC $520, BWC $510, BWD $460, BTD $460.

POTATOES £/tonne

	Close	Previous	High/Low
Nov	142.0	146.0	152.0 140.0
Feb	170.0	170.0	
Apr	235.0	244.5	252.0 233.0
May	255.0	265.0	269.0 252.0

Turnover 1000 (1271) lots of 40 tonnes.

GRAINS £/tonne

Wheat	Close	Previous
Jun	110.50	111.00
Sep	107.00	107.20
Nov	110.30	110.75
Jan	113.90	114.30
Mar	117.00	117.40
May	120.45	120.70
Jun	122.10	122.25

Barley	Close	Previous
Sep	105.30	105.40
Nov	108.20	108.50
Jan	112.40	112.75
Mar	115.40	115.85
May	117.00	117.35

Turnover: Wheat 535 (278), Barley 128 (135). Turnover lots of 100 tonnes.

PIGS (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	113.0	113.0	112.5
Aug	108.8	110.5	
Oct	115.0	116.0	

Turnover 0 (7) lots of 3,250 kg

LONDON STOCK EXCHANGE

Firmer sterling helps equities again

Account Dealing Dates		
First Dealings:		
Jun 5	Jun 19	Jul 3
Option Declarations:		
Jun 15	Jun 29	Jul 13
Last Dealings:		
Jun 16	Jun 30	Jul 14
Account Day:		
Jun 26	Jul 10	Jul 24

*New time dealings may take place from 8.00 am two business days earlier.

NERVOUSNESS over domestic interest rates receded a little further on the UK stock market yesterday after sterling refused to be upset by the domestic money supply figures for last month. Share prices flinched sharply but only briefly on the news of a 1.2 per cent rise in M0 money supply and of £6.7bn in M4 lending in May, both above expectations. However, the market soon recovered confidence and closed with widespread gains, although well below the best levels of the day. Turnover remained light, and it was market makers, rather than the retail buyers, who chased stock.

The final picture was optimistic despite a late slippage in share prices. Double digit gains were marked against a wide range of blue chip stocks, especially in interest rate sensitive sectors like retail and construction. Sentiment in the UK market was helped by strong performances in the West German and other Continental bourses.

The stock market is relieved to see that sterling has so far been largely unaffected by the poor showing of the UK Government in the European elections. Share prices opened higher yesterday behind a further recovery in sterling and had added 19 FT-SE points before the announcement of the UK money supply and GDP estimates for the first quarter of the year; the GDP figures had little effect.

Trading screens turned red for a few moments on the announcement of the money supply data but soon settled down as sterling remained firm and UK money market rates also held steady. The equity market then traded comfortably for the rest of the session, before slipping away from its best levels late in the day when Wall Street appeared unable to sustain initial gains.

The FT-SE index closed 10.1 up at 2,164.8, a recovery of 3.6 per cent from the fall precipitated at the beginning of the month by the political explosion in China and renewed worries over UK interest rates.

Turnover bounced up to 504.1m shares yesterday from Monday's 380.2m, but traders described the market as, "extremely squeezy", implying that market makers have been caught out by a recovery in share prices fuelled by overseas buyers.

Reports from the US that LIN Broadcasting, having rejected the $6.5bn offer from McCaw Cellular Communications, might be open to a higher bid, encouraged hopes of renewed US interest in UK electronic and communication stocks; the original bid for LIN prompted significant US demand among kindred issues in the UK, including Racal Telecom.

While fears that weakness in sterling could prompt a further rise in UK base rates have receded this week, some analysts warned yesterday against over-confidence.

FINANCIAL TIMES STOCK INDICES

	Jun 20	Jun 19	Jun 16	Jun 15	Jun 14	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	84.72	84.76	84.61	84.02	83.75	89.10	89.29 (8/2)	83.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.59	95.72	95.68	95.48	95.22	98.13	99.59 (15/3)	95.21 (13/6)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1791.6	1780.7	1771.8	1759.9	1762.9	1481.6	1837.5 (19/5)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	184.9	183.8	182.4	183.7	184.4	215.9	186.1 (28/3)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)

	Jun 20	Jun 19	Jun 16	Jun 15	Jun 14	Year Ago
Ord. Div. Yield	4.45	4.49	4.56	4.59	4.58	4.50
Earning Yld %(full)	10.51	10.59	11.04	11.11	11.09	11.63
P/E Ratio(Net)(*)	11.46	11.39	10.97	10.89	10.92	10.58
SEAQ Bargains(5pm)	29,227	22,461	29,824	25,699	23,429	21,760
Equity Turnover(£m)†	-	1129.74	1342.65	1573.79	894.13	955.98
Equity Bargains†	-	25,437	31,794	27,734	25,621	24,865
Shares Traded (ml)†	-	380.2	527.0	556.8	466.7	395.3

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1790.0	1793.2	1798.0	1796.3	1797.1	1797.4	1798.7	1797.7

DAY'S HIGH 1799.1 DAY'S LOW 1790.0

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, ☆Nil 11.37 †Excluding intra-market business.

S.E. ACTIVITY

Indices	Jun 19	Jun 16
Gilt Edged Bargains	105.0	117.9
Equity Bargains	164.8	206.0
Equity Value	2283.5	2713.9
5-Day average		
Gilt Edged Bargains	113.1	111.3
Equity Bargains	179.7	181.9
Equity Value	2562.4	2568.6

● London Report and latest Share Index: Tel. 0898 123001

Market waits for Isosceles

This morning the market awaits the next move from Isosceles after the management of Gateway agreed to a rival bid, worth £2bn, from Newgateway, a company created by US investment bank Wasserstein Perella and US retailer A&P.

Dealers reported that throughout the session Hoare Govett, the broker representing Newgateway, had been bidding for stock just below the offer price of 225p-a-share. The buying was said to have been on behalf of the US bidders, and it was thought to have accounted for virtually all of the day's 11m turnover as the Gateway price settled at 223p, up 8 on the day.

Although the offer from Newgateway was some way above the 210p-a-share already on the table from Isosceles, dealers and analysts believed there was still a chance that Isosceles could come up with a higher offer. "Isosceles has three options," explained one analyst. "It can either do nothing, in which case its offer expires and Newgateway wins, or it can put in a revised bid, or it can extend the existing offer to give itself time to get more money together."

The consensus in the market was that Isosceles might find it difficult to raise further funds, although some analysts believe that an increased equity portion could make the offer more acceptable. But as one tired follower of the Gateway saga said late yesterday: "There is potentially another chapter in the story, so if you're a holder of Gateway it would be best to do nothing until Thursday."

Berisford spotlight

Berisford International returned to the limelight and the shares climbed to 157p, up 8 on the day. Although turnover was relatively moderate at 1.7m, there has been some good buying in recent sessions, pointing to possible stakebuilding.

Yesterday the price rose on market talk that Food Industries, the Irish group run by Mr Larry Goodman, had been adding to its near 9 per cent holding. Although there was no official confirmation, sources close to the Irish company said that Mr Goodman had indeed increased his stake; it was quite possible that he has pushed his holding over the 10 per cent mark, so there could be a disclosure soon, said the sources.

A comment from one leading analyst backed up the talk of further purchases by Mr Goodman. "He has been the only big buyer of Berisford recently, so when you see any sort of volume you have to suspect that he has been picking up more stock."

However, according to one experienced food dealer, suggestions that Mr Goodman will bid for Berisford are premature. "Berisford has fought off five bids in the past, and although 44 per cent of the company's equity is in aggressive hands, it is believed that nothing less than £4-a-share would stand a chance of succeeding."

Bunzl under pressure

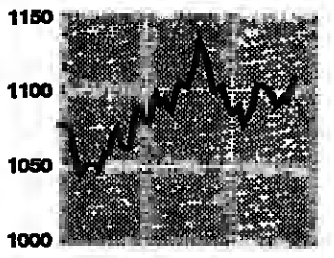
Bunzl were rocked by a sharp downgrading yesterday. The shares came under sustained selling pressure and closed the session down 6 at a low point of 136p. Turnover amounted to 8.2m shares.

Kleinwort Benson was previously comfortable about prospects for the group but now feels Bunzl may be trapped in low growth businesses with a 70 per cent gearing level that is unlikely to come down either this or next year.

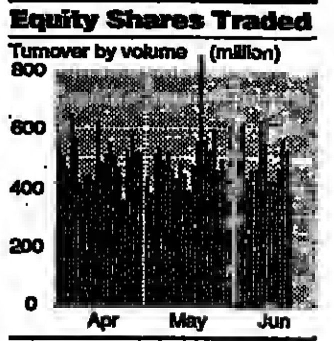
The packaging team there has consequently slashed its estimate of current year profits from £110m (the top of the market range) to £97m. There is also a warning that "if the current consumer slowdown in the USA and the UK continues it is likely that a further downgrade will be needed later in the year."

A downbeat Kleinwort note concludes: "What scares us is that for the ever optimistic James White to admit that things are slowing dramatically, there must be real problems at the moment with the business which is essentially consumer-driven. Obviously the situation will have to be reviewed as the economic climate changes for the better or for the worse."

Beecham attracted a flurry of interest as the company's egm overwhelmingly approved the plan to merge with SmithKline Beckman of the US. The price rose to 644p before some of the shine seemed to rub off when it was announced that dealing on the New York Stock Exchange in the "when-issued" form of the merged entity, SmithKline Beecham, due to start yesterday, would be delayed until further notice.



FT-A All-Share Index



Equity Shares Traded
Turnover by volume (million)

This caused consternation among marketmakers who had intended to start making a grey market in SKBeecham in London this morning. Matters were difficult enough, said one, because of the number of different instruments to be traded. As well as existing Beecham and SKBeecham stocks, and ordinary SKBeecham and the ADRs, there are shares in divisions to be spun off the new entity — Beckman Instruments and Allergan. Dealers last night were uncertain as to which if any of the last four would be quoted today. "It all depends on what happens in New York," said an analyst. Beecham closed 4 better on the day at 641p.

Special situations kept other pharmaceuticals firm too. A profits upgrading for Glaxo from Warburg Securities helped the stock push ahead strongly.

Dr Peter Woods, of Warburg, said that the company was having a good second half to the year, which ends this month. He has raised his forecast for current year profits from £970m to £1bn and changed his recommendation from add to buy — which translates to an estimated 10 per cent outperformance of the market over 6 months. Zantac, the world's most successful drug, is still growing at 20 per cent a year, suggesting that Glaxo is not suffering from the mooted downturn in the growth of H2 antagonist (anti-ulcer) drugs. Dr Woods said market share from its great rival Tagamet, made by SmithKline Beckman. Glaxo closed at 1386p, up 23. Turnover was 1.5m.

ICI and Wellcome both benefited from the decision to sell Coopers Animal Health for £155m. Analysts had expected £100m; "They got a very good price," said one. ICI firmed 11 to 1286p and Wellcome added 6 at 445p.

Barclays was the star performer among uninspired banks, rising 14 to 457p on the back of a recommendation from BZW. Otherwise the only other feature among financials was British & Commonwealth, 4 lower at 171p after Warburg Securities reduced its dividend forecast for year to December 1989p by ½p to 9½p; the problems at the group's US operation Atlantic Computers are more severe than is generally appreciated, warned Warburg.

Brewers sparkled with most stocks posting good gains. Allied Lyons added 8 at 444p on brand name and leveraged buy-out speculation, Greenall Whitley rose 13 to 301p as dealers chased stock in a tight market, and Devenish gained 9 at 313p after reporting interim profits of over £8m.

The building sector became fashionable again with the emphasis on leading stocks and those reporting news items. In the former category, RMC fared well, rising 15 to 759p, while BCI gained 7 to 550p. Trading statements brought sharp improvements in Meyer International, up 19 at 408p, and in Y J Lovell, 27 higher at 254p. Crest Nicholson continued to respond to Monday's interim results while NSM went 4 better to 102p after vastly improved figures. Anglo United which holds a 26 per cent stake in NSM and is currently bidding for Coalite, moved up 2½ to 50½p.

Heavy turnover of nearly 8m shares in Racal Electronics provided the most active feature in this sector at 516p, the shares put on 10 against a background of somewhat mixed comment from City analysts. Racal Telecom added 15 to 475p but turnover here was small, only 500,000 shares changing hands.

Rolls Royce surprised the market with the announcement of a £400m engine order from TWA. The stock rose to 198p before shading at the close to 197p and net rise of 4.

Volume was a respectable 5.6m shares.

Hillsdown stood out for the wrong reasons among firmer food manufacturers, suddenly dropping in late trading to a close of 268p, down a net 7 on turnover of 5.7m shares. The story in the market was that Warburg Securities, the broker, had downgraded Hillsdown after a company visit.

However, Warburgs later denied that it had downgraded its earnings forecast. "The stock is still a buy, but there is a worry that the first-half figures, due in September, will be soft because of the salmonella scare, but we expect new volume gains in the second-half to more than compensate for that," said the broker.

Retailers were in poor form. Iceland Frozen Foods finished 8 weaker at 325p after BZW lowered its profits forecast from £42.7m to £39m for year-end 1989 and took the stock of its buy list. Iceland have recently been undermined by concern about the integration of Bejam.

The prospect of the trading statement due today from Charter Consolidated did little for its own shares but sparked interest in Johnson Matthey, the precious metals refiner in which Charter has a 38 per cent stake. The market responded to hopes that Charter may include in its trading statement an agreed bid for Johnson, and the shares moved up 7 to 389p.

British Airways eased a penny to 200p on the news that it was in discussions with Sabena, the Belgian state airline, with the intention of taking a 20 per cent stake. The price was further undermined as two US investors which had been buying on the back of last week's strong dollar continued to stay away. Trade was brisk in both directions as 3.9m shares changed hands.

A positive agm satement from Waterford helped sentiment and the stock added 3 at 79p. Dealers spoke of buying from Ireland.

A 29 per cent improvement in year end results failed to sustain Christie Group and the stock ended 10 off at 181p.

Speculation that the expiry of the Government's golden share in Amersham International would attract bids for the company pulled the price 22 higher to 455p.

A single trade of 9.9m Maxwell Communication shares raised a few eyebrows, giving rise to stories that Mr Robert Maxwell was either shuffling stock around or reducing his personal holding. Goldman Sachs was said to have done the business.

Properties were keenly sought following press reports of record rents being paid on West End office space. Great Portland, the primary West End developer, consequently led the way with a rise of 12 to 393p and backed up by a firm recommendation from Hoare Govett.

City Gate Estates soared 43 to 360p after announcing a rise in full year profits to £5.3m, against just £2m in the previous year.

The injunction issued by a US District Court preventing Stena and its UK bidding partner Tiphook taking any further steps pursuant to their tender offer for shares of Sea Containers unsettled Tiphook, which slipped back 8 to 448p.

Unexpected news that profits may not match analysts' forecasts and could be below last year's record £1.5m sent Robert H Lowe crashing 22 to 90p.

The strong run in BAT Industries faltered as profits were taken and the close was 14 down at 659p.

Toyota's entry next year into the European luxury car marketwith its Lexus range incited buying of Inchcape, which holds the Toyota franchise in the UK and several European countries. Inchcape shares ended 9 up at 255p.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 32

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change
ASDA Group	4,400	179	-1½
Allied-Lyons	2,800	444	+8
Amstrad	1,100	82	+2
Argyll Group	4,300	221	-½
Ass. Brit. Foods	798	374	+1
BAA	1,300	344	
BAT Inds.	4,830	659	-14
BET	5,100	290	+6
BICC	2,100	511	+5
BOC	774	495	+6
BPB Inds.	1,900	242	+2
BTR	2,300	380	+4
Barclays	1,400	457	+14
Bass	495	1004	+2
Beechams	1,700	641	+4
Blue Circle	1,300	590	+7
Boots	3,000	296	+4½
Brit. & Comm.	2,700	171	-4
Brit. Aerospace	1,200	677	-3
British Airways	3,900	200	-1
British Gas	8,400	188½	+2
British Land	730	356	+5
BP	5,300	292	-2
British Steel	5,400	78½	-½
British Telecom	2,100	273	-2
Burmah Oil	363	594	+4
Burton	2,600	221	+1
Cable & Wireless	814	490	
Cadbury Schweppes	637	357	-2
Carlton Comms.	261	829	+10
Commercial Union	135	366	
Cons. Gold Fields	299	1258	-5

Stock	Volume 000's	Closing Price	Day's change
Coloroll	1,100	338	-2
Courtaulds	377	337	+1
Dalgety	1,000	370	+1
Dixons	918	144	
Eng. China Clays	352	474	-1
Enterprise Oil	79	563	+6
FKI Babcock	1,900	148	
Fisons	985	291	+1
Gateway Corp.	11,000	223	+8
General Accident	143	938	+5
General Elect.	6,200	249	+2½
Glaxo	1,210	1386	+23
Globe Inv.	57	178	+½
Glynwed Int.	313	287	+1
Granada	702	333	-7
Grand Met.	2,200	539	+5
GUS A	498	1038	+27
GRE	841	1087½	+1½
GKN	281	396	+5
Guinness	1,900	502	+2
Hammerson 'A'	38	789	+2
Hanson	4,300	203	+1
Harrisons & Cros.	2,300	165	+1
Hawker Siddeley	463	695	
Hillsdown Hldgs.	5,700	268	-7
IMI	407	224	+1
Imp. Chem.	1,000	1286	+11
Inchcape	1,400	255	+9
Jaguar	109	357	-1
Kingfisher	683	304	+1
Ladbroke	301	584	+1
Land Securities	1,700	588	+11

Stock	Volume 000's	Closing Price	Day's change
Laporte	201	434	+2
Legal & General	239	309	+1
Lloyds Bank	1,500	346	+6
LASMO	406	472	+3
Lonrho	1,300	275	+4
Lucas	1,800	648	+10
MB Group	1,300	195	+3
MEPC	290	587	+8
Marks & Spencer	1,100	192½	+1½
Maxwell Comm.	10,000	184	+1
Midland Bank	1,000	345	+5
Nat. West. Bank	1,400	295	+1
Next	177	138	
Northern Foods	98	316	
Pearl	63	443	+3
Pearson	79	714	+2
P & O	932	643	+5
Pilkington	1,400	232	+1½
Plessey	1,600	264	+1
Polly Peck Intl.	979	266	-7
Prudential	1,700	174	+1
RHM	407	457	+3
RMC	316	759	+15
RTZ	764	489	+3
Racal	9,700	507	+3
Rank Org.	142	948	
Reckitt & Colman	56	1118	+6
Redland	1,300	557	+4
Reed International	583	417	+3
Reuters	711	799	+13
Rolls Royce	5,600	197	+4
Rothmans	198	538	+1

Stock	Volume 000's	Closing Price	Day's change
Royal Bk of Scotland	50	330	+1
Royal Insurance	232	398	+6
STC	1,550	371	
Saatchi & Saatchi	1,000	311	+18
Sainsbury	1,000	266	
Scott & Newcastle	2,300	333	+18
Sears	3,800	115	+½
Shell Transport	2,075	412	+1
Siebe	217	538	+7
Slough Ests	235	323½	-½
Smith & Nephew	4,400	130½	+1
Smiths Industries	200	304	+2
Standard Chartered	1,200	509	+1
Storehouse	1,200	153	-1
Sun Alliance	350	1076	-4
T&N	598	227	+3
TSB	2,330	118	+3½
Tarmac	2,600	320	+7
Tate & Lyle	1,400	249	
Taylor Woodrow	717	322	+3
Tesco	753	157	-3
THORN EMI	1,000	760	+7
Trafalgar House	621	363	-2
Trusthouse Forte	2,100	320	-2
Ultramar	584	338	+1
Unilever	1,150	578	+3
United Biscuits	944	345	-1
Utd. Newspapers	1,500	434	+1
Wellcome	706	445	+6
Whitbread 'A'	874	350	+3
Williams Hldgs.	495	244	
Wimpey	1,100	263	-3

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (119).

BRITISH FUNDS (4) Exch. 2½pc 1990, Exch. 10pc 1989, Treas. 2 IL 1994, Tr. 5pc 1986-89, LOANS (3) BANKS (3) Algemene, Deutsche Bk., Guinness Mahon, BREWERS (1) Bass, BUILDINGS (7) CHEMICALS (4) BASF, Bayer, Caird, ICI, STORES (2) Asprey, Body Shop Intl., ELECTRICALS (8) ENGINEERING (8) Folkes N/V, Renold, Thyssen, FOODS (10) HOTELS (1) Ryan Hotels, INDUSTRIALS (21) Ass. Brit. Consultants, BET, BTR Nylex, CSR, Caparo Inds., Halma, Handley-Walker, Hanson, Do. 5.75pc Cv Pf, Do. 10pc Ln., Hunting Ass., Oriflame, Pacific Dunlop, RCO, Scapa, Siebe, Tech. Project Serv., Toye, Triangle Tst., Unilever, Witshaw, INSURANCE (3) Allianz, Britannic, LEISURE (3) First Leisure Corp., Prism Leisure, Quadrant, MOTORS (1) Lyon & Lyon, NEWSPAPERS (1) Barbour Index, PAPERS (2) More O'Ferr., WCRS Grp., PROPERTY (6) SHIPPING (3) Craig Shipping, IoM Stm., Sea Containers, SOUTH AFRICANS (4) Barlow Rand, SA Brews., SASOL, Tongaat Hul., TRUSTS (17) OILS (2) Brit. Gas, Hunting P.S., MINES (4) Ang. Am. Coal, Kinross, Rand Mines, Ventersport, THIRD MARKET (5) Chelsea Artisans, Hasmocell, Hoskins Brewery, Royal Sovereign, Unit.

NEW LOWS (26).

CANADIANS (1) Nova Corp. of Alberta, ELECTRICALS (4) Chuangs Cons., Forward Grp., Radamec, Radius, ENGINEERING (1) SKF AB, INDUSTRIALS (7) Aaronson Bros., Amberley, Dolphin Pack., MB, Mainmet, Mid Kent Hldgs., Trickus, PAPERS (1) Bunzl, PROPERTY (3) Hambro Countrywide, Land Securities 10pc 2025, Do. 10pc Deb 2030, TEXTILES (3) Drummond, Lowe (Robert H), SEET, TOBACCOS (1) BAT Inds. 12¼pc Ln., OILS (1) Ent. Oil 10¾pc 2013, MINES (2) Bougainville Kina, Endeavour, THIRD MARKET (1) Vizcaya.

APPOINTMENTS

Restructure at Sun Life

SUN LIFE GROUP has undergone a major re-organisation, and has been divided into three core businesses. Sun Life Assurance Society covers UK life and pensions - Mr Michael Turner has been appointed general manager. Mr Geoffrey Harrison-Dees, currently managing director of Sun Life Trust Management, has been appointed general manager (marketing and sales). Mr Les Owen becomes general manager (life & pensions). A new company, Sun Life Asset Management, will become the holding company for Sun Life Investment Management Services, and Sun Life Properties, together with Sun Life Trust Management, the unit trust subsidiary. Mr John Webster, formerly general manager (investment), has been appointed managing director. Another new company, Sun Life Europe, has been formed as the holding company for Sun Life's developing European activities - Mr Clive Williams, formerly general manager (business dvelopment), has been appointed managing director.

■ THE BRONX ENGINEERING CO, part of the Verson International Group, has appointed Mr John P. Bennett as financial director, and Mr David N. Whitiaker as commercial director. Mr Timothy J. Brown becomes a director. Mr R. Allen retires at the end of June, but will continue as a consultant.

■ Mr Ted Taylor has been appointed INDEPENDENT TELEVISION NEWS director of engineering. He takes over from Mr Peter Ward who retires at the end of June. Mr Taylor was deputy head of production.

■ MINET INTERNATIONAL PROFESSIONAL INDEMNITY has formed a European management group, and appointed Mr Stephen Gilbert (chairman), Mr Derek Cooper, Mr Derek Farman, Mr Philip Foley, Mr David Ling and Mr William Simpson to the group.

■ Mr Brian Fagan has joined R. MANSELL, Croydon, as director of the contracts department, City office. He was area construction manager with Fairclough Building (Southern).

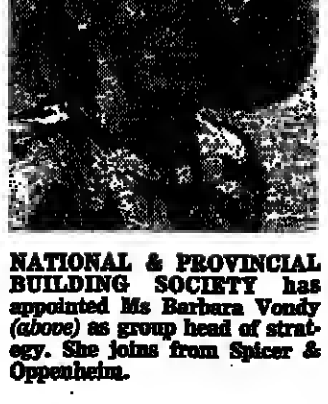
■ NORWICH UNION FIRE INSURANCE SOCIETY has appointed Mr Geoffrey Loades as assistant general manager (corporate finance and development) from July 1. He will replace Mr Fred Kennedy who is retiring. Mr Loades is corporate development manager. He will assume responsibility for corporate development and information, and staff development, in adddition to corporate finance.

Post Office finance chief

■ Mr Richard Close has joined the POST OFFICE BOARD as member for corporate planning and finance. He was director of corporate finance for the Post Office and succeeds Mr Philip Sellers, who left the board on June 9 on completion of his contract. Mr Sellers will continue as a director of POSTEL, the pension fund for the Post Office and British Telecom, and as a trustee of the Post Office Pension Funds, and will pursue other commercial interests.

■ MILTON KEYNES DEVELOPMENT CORPORATION has appointed Mr John Sullivan as director of housing and community buildings. He was deputy director of housing with Coventry City Council.

■ Following the acquisition of INDEPENDENT TELEVISION PUBLICATIONS by IPC Magazines, the board will be: Mr John Mellon, chairman; Mr John Matthews, managing director; Mr Jeffrey Kalman, finance and commercial director; Mr Richard Barber, editor; Mr Gordon Brown, advertisement sales & marketing director; Mr Peter Barber, production director; Mr Kelvin Taverner, circulation sales director; Mr Nigel Cole, director of promotion and publicity; and Mr John Philbin, non-executive director. Publishing director of TV Times is to be Ms Linda Lancaster-Gaye, currently publisher of Woman's Own and Woman's Weekly.



NATIONAL & PROVINCIAL BUILDING SOCIETY has appointed Ms Barbara Vondy (above) as group head of strategy. She joins from Spicer & Oppenheim.

■ Mr Bruce Cunningham has been appointed managing director of HOTEL & CATERING SUPPLIES, formerly P&H (Glassware), recently acquired by Autobar Industries. He was managing director of Palatine Inns.

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AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	55.39	56.05	59.63	-0.80	4.60
Gilts & Fixed Int	6	109.30	109.30	115.8	+0.5	8.64
High Inc Equity	6	133.7	136.6	145.4	+1.9	4.37
Worldwide Bond	6	204.90	204.9	217.1	-2.6	4.47
Capital Growth						
American Growth	6	189.7	189.7	202.9	-6.3	0.94
Asian Pacific	6	96.60	96.60	103.4	-1.3	1.26
Assets & Earnings	6	158.8	158.8	169.9	+1.8	2.18
Capital Reserve Acc	0	85.34	85.34	85.41	+0.13	4.68
Comdty & Energy	6	100.9	100.9	108.0	-0.3	1.76
1992 Enterprise	6	57.79	59.39	63.19	+0.38	2.85
European Capital	6	88.10	88.85	94.53	+0.2	0.79
General	6	176.40	179.40	190.9	+1.4	2.36
International		47.10	47.17	50.19	-0.07	1.00
Japan	6	106.8	106.0	114.3	+0.6	0.00
Mastertrust	6	86.08	86.08	92.07	-0.11	1.85
UK Growth Acc	6	201.2	201.2	215.20	+1.7	1.30
UK Growth Dist	6	134.10	134.10	143.5	+1.1	1.95
US Emerging Cos	6	55.48	57.28	60.94	-1.19	0.00
Income & Growth	6	295.0	295.8	316.4	+5.6	3.24
Ethical	6	48.94	50.16	53.39	+0.4	1.87
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
Amer Inc & Growth	5	31.82	31.82xd	33.96	-0.46	3.31
European	5¼	65.84	65.98	70.43	+0.07	0.00
European Income	5¼	64.99	64.99xd	69.38	-0.67	3.09
Exempt	1	806.8	806.8	842.0	+5.50	2.21
Extra Income	5	42.77	42.73xd	45.61	+0.47	4.99
F East Emerg Econs	5¼	46.56	46.93	50.26	-0.43	0.81
Fund Inc Tst	5	121.7	121.7	129.9	+0.40	2.51

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Burrage Unit Tst Mangmt Ltd (0905)F						
117 Fenchurch St, London EC3M 5AL 01-480 7216						
Shr Dsg Gilt & FI	1¼	53.21	53.21	53.95	+0.03	12.92
CCL Unit Trusts Ltd (1400)F						
74 Shepherds Bush Green, W12 8SO 01-740 7070						
UK General Tst	5½	54.62	55.46	59.31	+0.46	2.70
Global Tst	5½	41.46	41.89	46.99	-0.64	2.01
Recovery Tst	5½	53.47	55.67	59.22	-0.03	1.92
CIBC Unit Tst Managers plc (1200)H						
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01 234 6000						
Growth Fd Acc	5	108.8	110.2xd	116.3	+0.8	3.64
CS Fund Managers Limited (1000)H						
125 High Holborn, London WC1V 6PY 01-242 1148						
CS America	5	61.63	61.63	65.56	-1.28	0.67
CS International F	5	56.60	56.60	60.21	+0.16	1.77
CS Japan F	5	122.7	122.7	130.5	+0.9	0.34
CS Portfolio Inv 4	5	72.79	72.79xd	77.43	+0.36	1.40
Canada Life Unit Tst Mgrs Ltd (1200)F						
2-6 High St, Potters Bar, Herts 0707 51122						
Can Gen Dist	5	142.4	147.7	155.4	+0.80	2.98
Do Gen Accum	5	237.5	246.4	259.3	+1.40	2.98
Do Income Dist	5	93.84	97.74	102.9	+0.40	5.47
Do Inc Accum	5	215.0	223.9	235.7	+0.90	5.47
Gilt & Fxd Int	5	36.09	36.14	38.04	+0.24	8.44
Cannon Fund Managers Ltd (0700)H						
1 Olympic Way, Wembley, HA9 0NB						
01-902 8876. Dealing: 0800 282621						
Growth	5½	38.31	38.31	40.97	+0.21	2.47
Income	5½	47.80	47.80	51.12	+0.04	4.01
Far East ◆	5½	35.98	36.47	39.01	-0.15	0.06
North American ◆	5½	36.68	37.19	39.56	-0.21	1.82
Global ◆	5½	51.38	52.19	55.52	+0.98	1.77
European	5½	55.90	56.67	60.79	+0.93	0.89
Japan ◆	5½	104.4	105.7	115.1	+0.08	0.01
Intl Currency Bd	5½	44.32	44.32	47.01	+0.14	6.38
Strategic Opps.	5½	54.71	54.71xd	58.51	+0.41	1.25
Capability Trust Mngrs Ltd (1200)F						
Admin, 5 Rayleigh Road, Hutton, Brentwood, Essex						

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Provident Mutual Unit Tst Mgrs Ltd (0905)H						
25-31 Moorgate, London, EC2R 6AA. 01-588 3965						
PM Equity Gth	5	123.2	125.1	133.0	+1	2.99
PM Income & Gth	5	104.2	106.0	112.7	+1	4.85
PM Nth Amer Gth	5	55.65	58.65	34.23	-0.44	1.27
PM European Gth	5	56.28	56.28	59.87	-0.2	0.74
PM Japan Gth	5	77.12	77.22	82.14	+0.54	0.30
PM Overseas Gth	5	52.63	52.63	55.98	-0.09	0.47

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Smith & Williamson Unit Tst Mgrs (1000)F						
1 Riding House St, London W1A 3AS 01-637 5377						
S & W American	5	174.5	176.9xd	187.3	-1.6	1.53
S & W Far Eastern	5	103.3	104.4	110.4	+1.3	0.00
S & W Growth	5	97.46	98.76	104.5	+0.3	2.13
S & W Income	5	99.41	101.7	107.5	+0.2	5.43
S & W Smllr Secs	5	267.5	276.3	292.4	-3.3	1.04
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth 0202 298822						

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ▼ - 0001 to 1100 hours; ◆ - 1101 to 1400 hours; ● - 1401 to 1700 hours; ◆ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Convtbl & Equity	5	62.74	65.75	69.95	-0.05	6.53
European	5	67.78	68.15	72.50	+0.31	0.09
Far Eastern	5	60.65	60.76	64.64	-0.27	0.71
Growth Inc	5	88.86	92.32	98.21	+0.43	1.40
Growth Acc	5	88.86	92.32	98.21	+0.43	1.40
Income Inc	5	84.20	86.27	91.78	+0.55	4.69
Income Acc	5	84.20	86.27	91.78	+0.55	4.69
Property Share	5	54.85	54.85	58.44	+0.2	0.99
Smaller Co's	5	58.80	62.10	66.06	+0.25	1.45
Formerly GRC Trust Managers Ltd						
Nth American	5	64.53	64.53xd	69.01	-0.58	1.55
International	5	47.90	47.90xd	51.22	-0.21	1.41
Wright Seligman Fund Mngrs Ltd (1000)H						
11 Blomfield St, London EC2M 7AY 01-588 0592						
Growth	5	110.61	110.61xd	115.63	-1.22	4.11
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250						
Yorkshire General	5½	63.04	65.56xd	69.75	+0.24	2.62
YUTM HS Eqty Inc Tt	5½	60.10	62.28	66.22	+0.36	4.61
YUTM Intl Gwth Tst	5½	51.05	51.05	54.46	+0	1.00

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Int'l Expl June 7	485.3	503.81	—	—

Cent. Bd. of Fin. of Church of England‡‡

2 Fore Street, London EC2Y 5AQ 01-588 1815

Inv Fund May 31	525.45	—	4.75
Fxd Int Sec May 31	139.45	—	10.25
Deposit May 31	100.00	—	12.45

Charinco/Charishare‡‡ (1000)F

33 King William Street, EC4R 9AS 01-280 2800

C'inco Inc June 14	160.5	164.5xd	-0.90	9.74

INSURANCES

Continued on next page

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MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
99¼	98	Exch. 10pc 1989	99	+1/32	10.04	13.25
99	98	Exch 11pc 1989	99	+1/16	11.08	13.22
98	95	Treas 5pc 1986-89	97	-⅛	5.10	10.99
99½	98	Exch 10¼pcCv '89	98	.....	10.35	12.62
101	99	Treas 13pc 1990‡‡	100	+1/32	12.98	12.66
99	98	Exch 11pc 1990‡‡	98	+⅛	11.13	12.91
101	99	Exch. 12½pc 1990	99	+1/32	12.54	12.87
94	91	Treas. 3pc 1990	93	.....	3.19	10.38
96	95	Treas 8¼pc 1987-90‡‡	95	.....	8.59	12.70
98	95¼	Treas. 8pc Cv 1990 ‡‡	95	+1/16	8.34	12.22
98	96	Treas. 10pcCv 1990	96	.....	10.33	12.61
91	87	Exch 2½pc 1990	92¼	+1/16	2.74	9.35
101	98	Treas 11¾pc 1991	99	.....	11.86	12.39
92	89	Funding 5¾pc '87-91‡‡	91½	+1/16	6.29	11.15
89	86	Treas. 3pc 1991	89¼	+1/32	3.37	9.44
100	95	Treas 10pc Cv '91 ‡‡	96	.....	10.42	12.10
101	97	Exch. 11pc 1991	98	-⅛	11.23	12.01
94	91	Treas. 8pc 1991	91¼	-1/16	8.72	11.94
106	102	Treas 12¾pc 1992‡‡	102½	-1/16	12.44	11.60
99½	95	Treas 10pc 1992	96¼	-1/16	10.39	11.68
94	91	Treas. 8pc 1992 ‡‡	91	-1/16	8.75	11.65
100¼	96	Treas 10½pc Cv 1992‡‡	97	.....	10.78	11.56
85	82¼	Treas 3pc 1992	83¼	+⅛	3.60	9.55
105	101¼	Exch. 12¼pc '92	101	-1/32	12.05	11.60
109	105	Exch 13½pc 1992	105	-1/32	12.84	11.52
94	90	Treas 8¾pc 1993	90	-1/16	9.09	11.38
100	95	Treas 10pc 1993‡‡	96	-1/16	[illegible]	11.21
108¼	103	Treas 12½pc 1993‡‡	103	-1/32	12	11.29
87¼	84¼	Funding 6pc 1993‡‡	85	+1/16	7.0	10.25
113¼	108¼	Treas 13¾pc 1993‡‡	108	-1/16	12.6	11.21
94¼	89¼	Treas. 8½pc 1994	90	-⅛	9.4	11.22
117	112	Treas 14½pc 1994‡‡	112	-1/32	12.	10.94
113	107	Exch 13½pc 1994	108¼	-1/32	12.4	11.26
100¼	95	Treas. 10pc Ln. 1994‡‡	96	-⅛	10.	11.02

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
110¼	104	Exch. 12½pc 1994	104	-1/32	11.	11.23
96	91⅛	Treas 9pc 1994‡‡	92	-1/16	9.	10.99
106	102	Treas 12pc 1995	103	+1/32	11.	11.20
79	74½	Exch 3pc Gas 90-95	75¼	.....	3	8.30
101	95¼	Exch. 10¼pc 1995	96	-1/32	10	11.06
113	107¼	Treas 12¾pc 1995‡‡	108	-1/16	11.8	10.97

[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
89½	86½	NZ 7¼pc 1988-92	87½	.....	8.25	12.00
206	206	S Rhod 2½pc Non-Assd	206	.....	-	-
84½	84½	Do. 4½pc 87-92 Assd.	84½	.....	5.33	9.33

LOANS

Building Societies

[illegible]

Public Board and Ind.

1989 High	Low	Stock	Price £	+ or -	Yield Int.	Red.
99	95	Agric. Mt. 5pc 59-89	99	.....	5.05	-
97	45	Met. Wtr. 3pc 'B'	46	.....	6.53	10.2

FOREIGN BONDS & RAILS

1989 High	Low	Stock	Price £	+ or -	Div % Gross	Red. Yield
45	40	Greek 7pc Ass	[illegible]	....	[illegible]	[illegible]
45	40	Do 6pc 28 Stb Ass	[illegible]	....	[illegible]	[illegible]
45	40	Do 4pc Mixed Ass.	[illegible]	....	[illegible]	15.00
80	65	Hung. '24 Ass	80	....	[illegible]	[illegible]
139	128	Hydro Quebec 15pc 2011	130¼	....	15.00	[illegible]
128	118	Iceland 14½pc Ln 2016	120	+⅛	14	[illegible]
97¾	91½	Ireland 9¾pc 91-96	92	....	9	11.50

AMERICANS

[illegible]

Continued on next page

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

ISLE OF MAN (**)

[illegible]

LUXEMBOURG (**)

[illegible]

Money Market Bank Accounts

[illegible]

Money Market Trust Funds

[illegible]

UNIT TRUST NOTES

[illegible]

LONDON SHARE SERVICE

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AMERICANS—Contd

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

For Wood (Graham) see Graham Wood

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

For Abbey Life see Lloyds Abbey Life

LONDON SHARE SERVICE

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INSURANCES—Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING—Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

For Sonic Tape see Systems Connections

*17½	5½	Stals Hldgs. 5p ... γ	10	+1	–	–	–	13.0
*3¼	1¾	Swanyard Studios 1p γ	3	......	–	–	–	●
11	7	Systems Connection 2½p γ	9	.....	–	–	–	11.8
85	28	Tomorrows Leisure 20p γ	80	.....	–	–	–	39.8
19	11	Tullow Oil 10p. ... γ	14	+½	–	–	–	–
113	95	UPL Group 10p..... γ	95	.....	2.75	●	3.9	●
150	135	Unit Group......... γ	145	–2	F7.5	2.9	6.9	8.2
14	5	Vista Ents 5p...... γ	10½	–½	–	–	–	–
40	35	Vizcaya Hldgs 5p . γ	36	–1	–	–	–	–
36½	23	Whitegate Leisure 20p. γ	35	–½	–	–	–	–
24	10	Do. Wrrnts .... γ	22½	–½	–	–	–	–
9¾	5	Wilton Group 1p... γ	8½	......	–	–	–	–

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ● Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ‡ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ▮ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ... γ	98	......
Craig & Rose £1.. γ	720	......
Finlay Pkg. 5p.... γ	88	......
Holt (Jos) 25p..... γ	1325	+1

IRISH

Cap. 8½% Ln. 1991..	£98	......
9pc Cap Ln. 1996..	£98½	......
Fin. 13% 97/02....	£119	+1
Arnotts.	425	......
Carrol (P.J.)....... γ	147xd	......
Hall (R. & H.).......	165	+4
Helton Hldgs ...... γ	73	......
Irish Ropes..........	203	......
United Drug.........	136	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	45
BOC Grp	42
BSR	6½
BTR	32
Barclays	41
Beecham	58
Blue Circle	48
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	51
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI Babcock	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	100
Jaguar	28
Ladbroke	48
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	11
Midland Bk	30
Morgan Grenfell	24
Nat West Bk	52
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	40
RHM	42
Rank Org Ord	80
Reed Intnl	34
STC	32
Sears	10
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property	
Brit Land	32
Land Securities	52
MEPC	50
Randsworth	28

Oils	
Brit Petroleum	21
Burmah Oil	50
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines	
Cons Gold	100
Lonrho	30
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar locked in narrow range

THE DOLLAR was locked in a narrow range yesterday, but towards the close of European trading it edged higher and attacked resistance levels of DM1.9800 and Y144.00.

Sentiment surrounding the dollar remained strong, but the fear of central bank intervention kept trading thin and nervous. The market did not have enough conviction to challenge the central banks, but at the same time was in no mood to test the downward potential in the currency. Japanese institutions are reported to have large cash holdings ready to invest overseas, and this is likely to keep a floor under the dollar at present.

The Bank of Japan intervened in Tokyo, but on a smaller scale than of late, selling between $200m and $300m. Dealers said central banks, including the US Federal Reserve, have been less obvious in selling dollars recently and have tended to intervene through a small number of banks, creating a mood of uncertainty and keeping speculative pressure down without using up large amounts of reserves.

At the close in London the dollar had improved to DM1.9780 from DM1.9730; to SFr1.7100 from SFr1.7050; and to FFr6.7125 from FFr6.6950, but had eased to Y144.05 from Y144.40. This was above the closing level in Tokyo of Y143.80. On Bank of England figures the dollar's exchange rate index fell to 72.3 from 72.4.

Sterling attracted more attention than most currencies, with the pound tending to consolidate after its recent fall. News on UK money supply growth and bank lending was not encouraging, but it provided further weight to the argument that London interest rates must remain high for some time. This in turn gave the pound support.

Seasonally adjusted M0 money supply rose 1.2 per cent in May, compared with 0.1 per cent in April, to give a year-on-year rise of 6.2 per cent against 5.7 per cent. The market was looking for a monthly rise of 1.1 per cent and annualised growth of 6.0 per cent. The rise of £6.7bn in bank and building society lending (M4) was lower than the £7.00n in April and the average of £6.9bn for the past six months, but was above market forecasts of around £6bn and the more optimistic expectations of £5bn.

Sterling finished below the day's peak of DM3.0750, but rose to DM3.0650 from DM3.0550. The pound also improved to SFr2.6500 from SFr2.6400 and to FFr10.4000 from FFr10.3700, but eased to Y223.25 from Y223.75. In early trading sterling was over 1 cent higher against the dollar at $1.5610, but closed only 5 points higher on the day at $1.5495. According to the Bank of England, the pound's index touched a peak of 91.3 in the morning and closed at 91.0 compared with 90.8 on Monday.

The Spanish peseta held firm, after joining the EMS exchange rate mechanism this week. The Bank of Spain capped the currency by purchasing $94.335m.

The French franc held steady against the D-Mark

£ IN NEW YORK

[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

*Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Money supply prompts setback

THE CLOSING level of 85.80 for September short sterling on Liffe yesterday may represent the middle of its trading range over the next week or so, depending on the performance of the pound and the UK economy.

Dealers said that bad news could take the contract down quickly to 85.40, but if there is conviction that base rates can be prevented from moving above 14 per cent a high of 86.20 is equally likely.

The news the market is waiting for concerns UK trade in May. These figures will be published next Tuesday and in the meantime trading is likely to be quite nervous.

Cash rates on the money market invariably move up defensively ahead of the trade figures, and on this alone it seems more likely that short sterling will fall than rise in the short term.

On the other hand some traders said it was not a time to sell because prices are likely to be driven up by holders of short positions, who have already lost money as the contract has recovered over the last week or so and need to buy back to cut losses.

The contract opened firm at 85.88 yesterday, boosted by a strong pound and touched a peak of 85.99, before falling back on disappointing money supply and bank lending figures to finish slightly above the day's low of 85.79.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE BUND FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LIFFE SHORT STERLING

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LONDON (LIFFE)

[illegible]

CHICAGO

[illegible]

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 72,365

A=Ask B=Bid C=Call P=Put

MONEY MARKETS

Rates a little firmer

LONDON INTEREST rates were slightly firmer yesterday after May figures for UK money supply and bank lending reinforced the belief that bank base rates will remain high for the foreseeable future. Growth in M0 money supply and M4 bank lending were above the general level of City forecasts, pushing interest rates slightly firmer.

Three-month sterling interbank opened at 14-13⅞ per cent, with the downward trend encouraged by the pound's better performance. Nervousness ahead of the money supply data pushed the rate up to 14$\frac{1}{16}$-13$\frac{15}{16}$ per cent by mid-morning however, and after the figures were published three-month money rose to finish at 14⅛-14 compared with 14$\frac{1}{16}$-13$\frac{15}{16}$ on Monday.

UK clearing bank base lending rate
14 per cent
from May 24

The Bank of England initially forecast a money market credit shortage of £650m, but revised this to £600m at noon and back to £650m in the afternoon. The authorities did not operate in the market during the morning, but provided total help of £674m in the afternoon. by purchasing £412m Treasury bills, in band 1 at 13¾ per cent, and £212m bank bills in band 1 at 13¾ per cent. Late assistance of around £50m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £107m, with Exchequer transactions absorbing £640m. These factors outweighed a fall in the note circulation adding £70m to liquidity and bank balances above target of £25m.

In New York the US Federal Reserve drained liquidity, via overnight matched sale and repurchase agreements, when Federal funds were trading at 9⅝ per cent.

In Zurich the Swiss banks cut the rate paid on customer time deposits by ¼ per cent to 6¼ per cent for all maturities. This followed a cut of ½ per cent on June 5. The Swiss National Bank reduced its floating Lombard rate by ¼ per cent to 8¼ per cent yesterday.

In Frankfurt call money was steady at 6.40 per cent, as tax payments kept credit conditions tight. Dealers hope this week's 35-day securities repurchase agreement tender from the Bundesbank will provide a net inflow, but the central bank is not expected to increase liquidity significantly above the DM8.3bn leaving the money market as an earlier pact expires. The result of the tender, at variable bid rates, will be known today.

In Brussels the Belgian National Bank cut the rate on three-month Treasury certificates by 0.05 per cent to 8.55 per cent. One and two-month rates were unchanged at 8.25 per cent and 8.50 per cent respectively.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

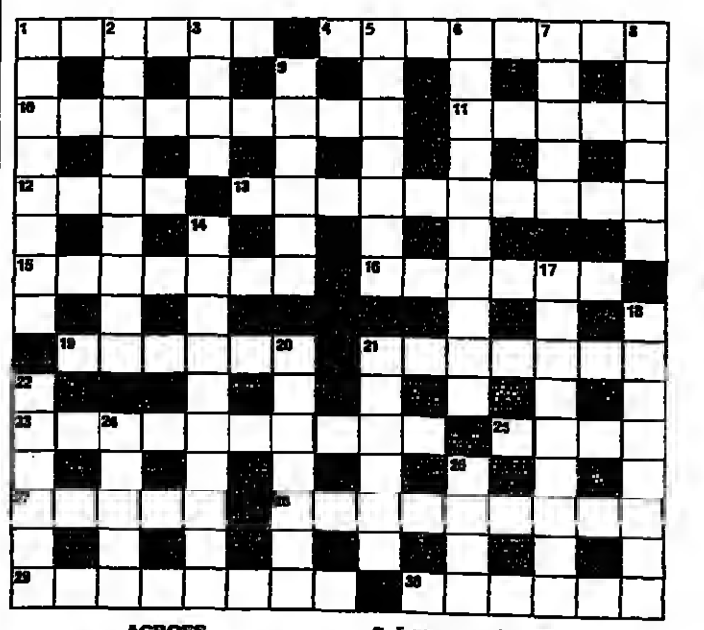
BASE LENDING RATES

[illegible]

JOTTER PAD

CROSSWORD

No.6,965 Set by FRESCA



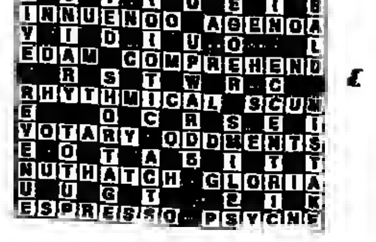
ACROSS

1 and 4 Wartime raider just a castle in the air? (6,8)
10 Spread around fish of the sea (9)
11 A pole to support back? That's divine! (5)
12 Final resting place for footwear (4)
13 Anchored to drifting multifaceted body (10)
15 and 16 Fancy Sadie's soup? It contains energy – and fat! (7,6)
19 Rough on second boat? (6)
21 Grand party to hover around, shamefaced (4-3)
23 Robots building half car – not as programmed (10)
25 Small group's display of patriotism (4)
27 A levy to make one angry (5)
28 Headquarters crew given time following a disgrace (9)
29 Stricken man in explosive situation overlooking valley (8)
30 Churchman's key student a novel schoolboy? (6)

DOWN

1 Well acquainted with a witch's pet? (8)
2 Standard glue used at court (9)
3 Old boatman given number one hydrant (4)
5 Ham does about turn (7)
6 Getting across discomposure of servant girl subject to cut (10)
7 Lager – tipple for composer? (5)
8 One's coming up fast though unlikely to get a hearing (6)
9 Ring from sorceress ensnaring William's heart (8)
14 Unfathomable as a severely bowdlerised version of *A Midsummer Night's Dream* (10)
17 Two continental articles put on beneath outer garment? (9)
18 Coasting about as an unbeliever (8)
20 Crown decoration that bandits have buried (7)
21 Large shed in which to exhibit unfinished paintings (6)
23 Hunger for salmon, perhaps, caught around morning (6)
24 Dog track? (5)
26 Where one could be held for battery (4)

Solution to Puzzle No.6,964



WORLD STOCK MARKETS

AUSTRIA — [illegible]

BELGIUM/LUXEMBOURG — [illegible]

DENMARK — [illegible]

FINLAND — [illegible]

FRANCE — [illegible]

FRANCE (continued) — [illegible]

GERMANY — [illegible]

GERMANY (continued) — [illegible]

ITALY — [illegible]

ITALY (continued) — [illegible]

NETHERLANDS — [illegible]

NORWAY — [illegible]

SPAIN — [illegible]

SWEDEN — [illegible]

SWITZERLAND — [illegible]

SOUTH AFRICA — [illegible]

JAPAN — [illegible]

AUSTRALIA — [illegible]

AUSTRALIA (continued) — [illegible]

HONG KONG — [illegible]

SINGAPORE — [illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

2pm prices June 20

Quotations in cents unless marked $. [illegible]

Sales	Stock	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
188750	ConCap A	$10⅝	10⅝	10½	
650	CentFd A	$8½	8⅜	8½	+ ⅛
3465	C Gear Trc	$23	22⅞	22⅞	− ½
9700	Cheran	130	130	130	
10	CHUM B f	$22⅝	22⅝	22⅝	
14014	Imp Oil A	$53⅞	53	53⅛	− ⅛
190482	Inco	$35⅝	33⅛	33¼	− ⅛
38862	Inland Gas	$15⅛	15	15	− ⅛
1800	Innopac	$12	11⅞	12	+ ⅛
28979	Inter City	$24⅞	24⅝	24⅞	+ ⅛
2058	Interhome	$47⅛	47½	47⅛	− ⅛
17238	Provigo	$18⅛	18⅛	18⅛	+ ⅛
750	Que Tel	$16⅛	16⅛	16⅛	
1800	Quebcor A	$17⅜	17⅜	17⅜	

(— No voting rights or restricted voting rights.)

INDICES

NEW YORK — DOW JONES

	June 19	June 16	June 15	June 14	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2480.8	2486.38	2475.00	2503.36	2518.66 (12/6)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	92.19	92.31	92.44	92.52	92.52 (14/6)	87.36 (23/3)	–	–
Transport	1149.09	1140.52	1139.55	1150.06	1165.59 (26/5)	959.95 (3/1)	1165.59 (26/5/89)	12.32 (8/7/32)
Utilities	205.67	205.73	205.19	206.08	206.50 (12/6)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2497.15 (2495.52) Low 2465.10 (2461.57)

STANDARD AND POOR'S	June 19	June 16	June 15	June 14	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite‡	321.89	321.35	320.08	323.83	326.95 (7/6)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	368.12	367.74	366.20	370.40	373.82 (7/6)	318.66 (3/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	30.79	30.66	30.51	31.02	31.35 (9/6)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	179.79	179.59	178.97	180.83	182.37 (9/6)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	362.39	361.83	361.80	363.83	366.16 (9/6)	305.24 (3/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	446.09	447.21	447.10	450.64	453.65 (9/6)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Jun 16	Jun 9	Jun 2	year ago (approx.)
Dow Industrial Div. Yield	3.59	3.51	3.38	3.55
	June 14	June 7	May 31	year ago (approx.)
S & P Industrial div. yield	3.00	2.98	3.02	2.94
S & P Indl. P/E ratio	13.62	13.75	13.53	15.35

TRADING ACTIVITY

†Volume Millions	June 19	June 16	June 15
New York	128.084	244.551	181.180
Amex	9.625	11.403	14.655
OTC	109.591	132.112	137.502

NEW YORK	June 19	June 16	June 15
Issues Traded	1,959	1,962	1,967
Rises	668	802	431
Falls	723	625	1,055
Unchanged	548	535	481
New Highs	67	61	66
New Lows	15	14	27

CANADA

TORONTO	June 19	June 16	June 15	June 14	1989 High	1989 Low
Metals & Minerals	3309.8	3303.4	3287.4	3378.7	3564.9 (6/2)	3207.5 (3/1)
Composite	3751.2	3745.1	3737.4	3769.7	3806.1 (8/6)	3350.5 (6/1)
MONTREAL Portfolio	1901.55	1896.63	1893.68	1917.30	1948.46 (9/6)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Warner Comms	4,452,380	59⅜	+ ½	Pan Am Corp	2,081,900	3⅛	− ½
Union Carbide	3,174,600	29⅜	+ 2½	Time	2,008,900	156⅞	− 5⅝
NWA	2,501,600	114	+ 6⅝	Bank of Boston	1,776,300	28½	+ ⅛
Paramount	2,283,600	60½	+ 2⅛	First Interstate	1,499,100	1⅛	+ ⅛
Calfinet	2,151,600	9	+ ⅛	IBM	1,234,400	110⅝	+ ⅞

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	June 20	June 19	June 16	June 15	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1536.6	1526.7	1528.7	1533.2	1583.7 (23/5)	1412.9 (7/4)
All Mining (1/1/80)	693.7	689.1	691.3	693.3	727.0 (26/1)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	365.48	364.09	359.41	359.28	365.48 (19/6)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6129.73	6124.89	6120.20	6131.15	6158.43 (13/6)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	331.17	333.05	334.89	333.45	334.89 (16/6)	275.49 (27/2)
FINLAND						
Unitas General (1975)	786.0	(u)	795.9	798.5	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	476.4	476.3	480.4	482.7	487.9 (9/6)	417.9 (4/1)
Ind. Tendance (30/12/88)	112.5	111.8	112.2	113.4	114.5 (5/6)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	617.18	608.31	599.09	598.10	617.18 (20/6)	535.78 (27/2)
Commerzbank (1/12/53)	1837.9	1808.5	1779.8	1776.1	1837.9 (20/6)	1595.7 (27/2)
DAX (30/12/87)	1472.11	1456.99	1426.54	1426.66	1472.11 (20/6)	1271.70 (25/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2337.71	(c)	2342.41	2340.02	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	642.96	648.68	651.72	646.63	653.72 (16/6)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	33233.47	33013.18	33055.17	32913.0	34266.75 (31/5)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2456.63	2443.71	2440.17	2440.16	2544.60 (8/5)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	251.5	251.2	249.6	249.7	251.5 (20/6)	208.3 (3/1)
CBS All Shr (End 1983)	195.9	195.6	194.1	194.4	195.9 (20/6)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	632.56	624.83	626.04	624.98	665.61 (19/4)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1303.12	1304.40	1296.52	1288.29	1310.02 (17/5)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1441.0	1427.0	1446.0	1413.0	1639.0 (23/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	2533.0	2533.0	2549.0	2542.0	2581.0 (28/4)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	310.54	310.38	309.61	311.64	315.90 (13/6)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4114.8	4119.8	4137.2	4129.0	4137.2 (16/6)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	742.2	735.8	733.0	728.3	742.2 (20/6)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	492.4	490.5	480.7	519.0 (17/2)	487.6 (13/6)

♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX — 1,000 JSE Gold — 255.7 JSE Industrials — 264.3 and Australia, All Ordinary and Mining — 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday June 20 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
MHI	18.8m	1,160	+30	Nippon Seiko	14.3m	1,170	+30
Toshiba	18.1m	1,416	+40	KHI	12.6m	1,090	+60
Furukawa Elec	15.4m	1,220	+10	NEC	12.2m	1,950	+40
Amada	15.4m	2,160	-30	Showa Wire	11.7m	1,330	-10
Sharp	15.1m	1,600	+70	Nippon Steel	11.4m	824	+10

3pm prices June 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
32⅛	21¾	AAR	.44	1.5	16	1032	30½	29⅝	29¾	−⅜
10⅝	8⅞	ACM s	1.01	11.		175	9¼	9⅛	9¼	
11⅞	10¼	ACMIn	1.29a	11.		289	11	10⅞	11	
10⅝	9½	ACM M	s1.61	10.		413	9⅞	9⅞	9⅞	+⅛
11⅞	10	ACM Sc	1.26	12.		738	11	10⅞	10⅞	−⅛
9⅞	8⅞	ACMSp	1.01	11.		481	9⅝	9½	9½	−⅛
17¼	10⅞	AL Lab	.12	.7	16	13	16½	16⅜	16⅜	
4⅞	3⅜	AMCA	.12e	3.0	27	11	4	4	4	+⅛
6⅝	3½	AM Intl				621	5⅞	5⅝	5⅞	+⅛
23½	16¼	AM In pf	2	9.5		17	21¼	21	21¼	−⅛
[illegible]										

Continued on Page 49

NYSE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous Page										
6½	4⅞	RangrO			40	155	5½	5⅜	5⅜	– ⅛
64	60¾	Raycm	.33	.9	18	593	35⅞	35⅛	35⅛	– ⅝
16⅝	9	RJamF	.20	1.3	9	144	16⅞	16¼	16⅜	
21⅜	16	Rayonr	2.60	13.	8	95	19⅞	19¾	19⅞	+ ⅛
6	½	vjRaytc				25	2⅝	2½	2⅝	– ⅛
74⅝	63½	Raythn	2.20	3.0	19	633	73⅝	73	73⅝	+ ⅛
1½	½	ReadBt				10	13-16	11-16	¾	–1-16
4⅝	1¼	RdBat pf				3	3	3	3	– ⅛
17⅞	15¼	REIT	1.36	8.2	16	103	17	16⅞	16⅞	– ¼
16½	13½	RlzRef	1.72	12.	8	2	14½	14½	14½	– ⅛
12⅛	5½	RecnEq			36	629	11	10⅞	10⅞	+ ⅛
17⅛	9½	Reebok	.30	2.3	11	2247	13½	13⅜	13⅜	– ⅛
8⅝	6⅞	RegiFn	.25e	3.0		232	8⅜	8½	8¼	
10	12½	Reich1⅞	1.78	12.	9	15	14¼	14¼	14¼	
6⅛	4¾	RelGrp	.32	5.6	13	174	5⅜	5½	5¾	+ ⅛
12⅛	16⅛	Repsol n				463	17¼	17	17¾	
6⅞	4¼	RepGyp	.20	3.6	24	14	5⅝	5½	5½	
49½	41	RepNY	1.28	2.6	10	427	49¼	48⅞	49	– ⅛
24⅞	13⅛	Rxene n	1	6.9	3	460	15⅜	15	15⅛	+ ⅛
33⅞	17½	RoyRoy	.76	2.9	11	77	29⅝	29⅛	29½	+ ⅛
62⅞	47⅛	RoyMil	1.60	3.1	5	2484	52⅝	52⅛	52⅜	– ⅛
39	29⅛	RseAld	.82	2.2	16	257	37⅞	37⅜	37⅜	
1	⅛	RvrOak				353	9-32	¼	9-32	
14	8⅝	Robtsn				17	10⅝	10⅜	10⅜	+ ⅛
30⅛	21⅞	vjRobins			12	422	30½	30¼	30½	– ⅛
20	19⅛	RochG	1.50	7.5	9	264	20	19⅝	19⅞	
74½	44¾	RochTl	2.84	4.1	10	347	69⅛	69¼	69⅜	+ ⅛
20⅛	18⅛	RckCtr	1.84	9.6	17	273	19½	19⅜	19¼	
23½	19¾	Rockwl	.78	3.6	7	2406	22¼	22	22⅛	– ⅛
9⅝	4⅞	RodRen				15	5⅜	5⅛	5⅜	
37½	30⅛	RoHaas	1.12	3.3	10	157	34⅞	34½	34½	– ⅛
37⅞	25⅛	Rohr			10	347	30⅞	30½	30½	– ⅛
[illegible]										
44⅝	21	XTRA	.72	2.2	14	191	33½	33	33¼	– ⅛
22	25	XTRA pf	1.94	7.3		220	26⅞	26⅝	26⅝	+ ⅛
3⅞	2	Zapata				115	2⅞	2⅞	2⅞	
21⅛	13⅛	Zayre	.40a	2.2	119	0177	18	17	17⅞	+ ⅛
30	15½	ZenithE				975	3576	19⅝	18⅞	18½ – ⅛
10⅛	6⅞	Zeninc	1.26	13.		184	9⅝	9½	9½	
2⅞	1	vjZenLb				225	1⅞	1½	1⅞	
21½	15	ZenNtl	.84	4.4	9	281	19⅛	19	19	
21⅞	14⅞	Zero	.44	2.0	17	352	u22	21⅞	21⅞	+ ⅛
37⅞	20	Zurnln	.68	1.8	18	727	u38⅞	38⅜	38⅜	+1⅛
11⅞	10	Zweig	1.07e	9.3		636	u11⅞	11⅜	11½	+ ⅛
10⅛	8⅞	Zweig n	.96	10.		1196	9⅜	9½	9⅝	– ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 22 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices June 20

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
PitDsm	.25e	8	2	27⅞	27⅞	27⅞	
PlyGem	.12	12	111	13	12⅞	12	– ⅛
Presd E		119	20	4⅞	4⅞	4⅞	– ⅛
[illegible]							

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OVER-THE-COUNTER

Nasdaq national market, 3pm prices June 20

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
−X−Y−Z−						
XL Dta s		19 246	23	22½	22½	
XOMA		274	19¼	18⅞	18⅞	– ½
Xicor		8 6722	6⅞	6⅝	6⅝	
YelowF	.70	10 682	25⅝	25¼	25½	
ZionUt	1.44	16	20	25	25	
Zyead		685	6½	3¼	6¼	–1-16

FINANCIAL TIMES
Wednesday June 21 1989

AMERICA

Takeover stories attract bulk of investors' interest

Wall Street

TRADING in stocks has slowed noticeably this week as investors concentrate on playing takeover situations while trying to work out whether economic fundamentals justify a further move upwards, *writes Janet Bush in New York.*

Toe Dow Jones Industrial Average started with modest gains yesterday, partly reflecting some cautious buying after a week when prices have mostly been moving downwards and partly in a movement which tracked a firmer dollar and a modest rally in bonds. However, the Dow then retraced all its gains.

At 2 pm, the Dow was quoted 0.38 points lower at 2,479.51 on moderate volume of 108m shares. Volume of 130.7m shares on Monday was the lowest for two months. Other major indices were also little changed at midsession.

After the substantial rally in all US financial markets earlier this month, this is now a time for reflection. It is clear that the economy has slowed and that the US Federal Reserve has acceded to the Administration's desire for lower interest rates by easing the Fed Funds rate very cautiously.

However, it is *by no* means clear that the deceleration in economic growth has begun to exert downward pressure on inflation. Gains in producer price and consumer price inflation in May were larger than expected and some of the optimism about a soft landing for the economy with slower growth combined with controlled inflation appears to be softening.

There is also a big question mark over whether the sharp fall in interest rates recently will lead to a rebound in the consumer and housing sectors which could threaten more inflation.

The equity market is schizophrenic about the dollar. Earlier in the dollar's rally, the strong currency was deemed positive because it would both give the Fed an argument for easing monetary policy and would attract foreign investment in US securities. Then, the stock market became concerned that the strong dollar was affecting the competitiveness of international US concerns, such as Pfizer which predicted sharply lower profits partly because of the dollar's strength.

With the dollar still stable, but on the defensive, the equity market is not sure what to think.

There are a number of economic indicators coming up this week but none are particularly market-moving. Of particular interest will be today's Tan Book of regional Federal Reserve bank economic reports, used as a reference point at the Federal Open Market Committee.

On Thursday, final revisions to first quarter GNP come out and on Friday, durable goods orders and personal income and consumption data for May are released.

The main focus of activity yesterday remained on takeover stocks. The airline sector was particularly lively after news that NWA had agreed to a $3.65bn bid from a group of investors led by Mr Alfred Checchi. NWA itself fell $¾ to $113¾ but other airline issues jumped on speculation that the losing bidders for NWA may turn their attention on other carriers. UAL jumped $7¼ to $135, AMR added $2 to $64 and Delta gained $2¼ to $70⅝.

The Dow Jones Transportation Average was quoted at a new all-time high of 1,174.48 at midsession, 14.71 points up on the day. The last record high was on May 26 at 1,165.59.

In over-the-counter trading, LIN Broadcasting added $2¾ to $125¾ having turned down a $120-a-share bid from McCaw Cellular whose A shares added $1 to $41¾.

Canada

A MID-MORNING slide in Toronto left stocks retreating from early gains by midsession. *The composite index fell* 3.5 to 3,747.6 while declining shares out outnumbered advancing ones by 228 to 207, on a volume of 14.2m shares.

EUROPE

Hyper-active Frankfurt leads day of strong gains

MOST of the actioo in Europe centred *on the* hard currency markets of West Germany, the Netherlands and Switzerland, which all ended higher in busy turnover. France, too, managed a late spurt, *writes Our Markets Staff.*

FRANKFURT broke new barriers in a hyper-active day as foreigners joined a domestic buying spree that sent the indices to post-crash highs. Volume reached an extraordinary *DM10.3bn worth of German* shares, way above the previous post-crash high of DM7.6bn recorded on May 30.

The FAZ index climbed 8.87 to 617.18 and the DAX index closed 15.12 higher at 1,472.11, slightly off its highs after some late profit-taking.

"It's gone up a little bit too quickly," cautioned one trader. "One doesn't want the whole thing to get overheated, for the bubble to burst. We need some consolidation."

Blue chips again led the latest surge, which has taken the market up 3 per cent in two days. Siemens climbed DM13.50 to DM563.30 and Daimler put on DM17 to DM701. Some second-liners were strong too, especially in construction and engineering: Hnlzmann rose DM46 to DM1,025, Strabag climbed DM14.50 to DM378 and Mannesmann was up DM4 at DM259.

PARIS began weakly hnt picked up sharply as buyers took a lead from Germany and a firmer Wall Street atart. Gains were boosted by short-covering *and position adjustment* before the end of tbe account tomorrow. The May inflation figures were in line with expectations and had little impact.

Volume was better, with one estimate putting it at FFr2.2bn. *The OMF 50 index added* 5.28 to 496.32 and the CAC 40 rose 20.82 to 1,739.56.

Pechiney starred follnwing news of its acquisition of LG. Technologies, a US magnet producer. The favourable outlook for the company helped the investment certificate up FFr6 to FFr360 and the international share to rise FFr8 to FFr231.

CGE forecast a 10 per cent *rise in 1989 earnings per share* and added FFr11 to FFr459, while Paribas predicted a 16 per cent eps rise and gained FFr7 to FFr499. Constructions had a good day, with SGE up FFr15, or 6 per cent, at FFr269.

AMSTERDAM also closed at a 1989 high in active trade with selected stock, such as steelmaker Hoogovens, very mucb in demand. The CBS tendency index closed at 192.0, 1.1 np on Monday's close but below the day's high of 192.3. Turnover was Fl 986.9m, up from Monday's Fl 725m.

Hoogovens added another Fl 1.30 to Fl 119.30 on favourable profit forecasts; it reached a day's high of Fl 121.70. Yesterday's advance hrought the gain this month to more than *Fl 26.* Hnngnvens grabbed more than 10 per cent of total turnover yesterday. The Amsterdam-based European Options Exchange also experienced heavy demand for Hoogovens options.

KLM rose Fl 1.70 to Fl 50.70 after saying it wanted to establisb co-operation pacts in the *Far East, following announcements* this week of agreements with European airlines and a US carrier. Fokker climbed Fl 2.80 to Fl 45.5 after securing an order from Pan Am.

ZURICH hit a high for the year, boosted by falling Swiss *interest rates. Trading* was lively, with demand centred on industrial shares.

Chemicals were led by Sandnz, with bearers SFr400 higher at SFr12,025 and registered shares SFr225 firmer at SFr10,500.

Trading in Nestlé was busy, with its bearers SFr90 firmer at SFr7,690 but below the day's high at SFr7,725.

MILAN was driven lower *across the* board *for a second* session by worries about the continuing political crisis. Volume was estimated at L260bn, following Monday's L290bn.

Fiat, whicb led the recent rally, dropped to L10,160 after being fixed earlier down L90 to L10,290.

BRUSSELS saw steel groups advance *strongly* in active turnover while most shares closed the first session of the two-week trading acconnt firmer. A cut in the three-month treasury certificate rate reinforced economic optimism.

Arbed gained BFr240 to 6,400 while Clabecq added BFr100 to BFr3,625. Shares in Societe Generale de Belgique were suspended pending its share offer from next Monday.

MADRID remained dull and the general index crept up 0.14 to 310.54.

STOCKHOLM ended slightly easier in very thin trade ahead of the long holiday weekend. The Affärsvärlden General Index closed down 6.3 at 1,204.6, with market turnover at SKr208m. Ericsson lost SKr4 at SKr550 *after a recent strong* run, wbile Astra's upward trend was also halted, the free B shares closing SKr2 down at SKr442.

HELSINKI fell in dull trading witb many investors away.

Picking greenery in the woods of Europe

Alison Maitland finds the pure environmental issue is still a rarity on the Continent

IN the fast-growing annals of environmental investment, the Dutch company Norit will go down as a trail-blazer.

The share price of Norit, a leading producer of activated carbon which is used to purify air and water, has climbed by 54 per cent this year alone to close yesterday at Fl 900 ($405). Since hitting a post-crash low in November 1987, it has soared by 268 per cent and over the past year has outperformed the Dutch market by about 75 per cent.

Its achievement looks impressive. But what is really unusual about Norit's popularity is that it can be clearly attribnted to the company's anti-pollution activities. With 33 per cent of sales going to the water and air purification industry, Norit is about as close to a "pure" environmental stock as one can get in continental Europe.

It is also a rarity. A host of stocks with green labels have been "discovered" in the UK this year, but the European mainland, where popular environmentalism is far more advanced, has yet to nffer such rich investment pickings.

"It's a very nice idea, but where it translates into reality in Europe is more difficult," says Ms Mary Foster, of BNP Securities. "It is extremely hard to find pure plays."

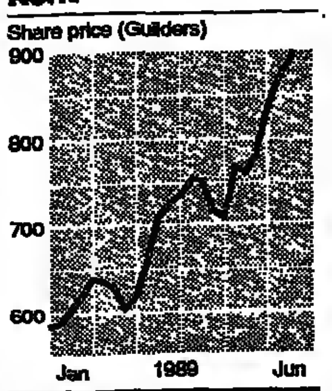
The main prohlem is that exciting anti-pollution companies often turn out to be subsidiaries of large groups operating in very diverse fields. "A number of stocks have a green aspect," says Mr Jamie Stewart, of Baring Securities, "but you suddenly discover the companies also sell tobacco or hair spray."

Even when these other activities are not incompatible, they may dwarf the environmental side. Take Atochem of France, which is developing alternatives to the chlorofluorocarbons that deplete the ozone layer. Atochem is a 100 per cent owned chemical subsidiary of oil giant Elf Aquitaine, and "it's hard to justify buying Elf as an environmental stock," says one saleswoman.

Another problem is that anti-pollution technology can be very costly and profits may take years to come through, says Mr Stewart of Barings.

"This green aspect does interest fund managers, but

Norit



there tend to be few cases which are totally green and at the same time sufficiently compelling financially for them to go into it."

These obstacles have not prevented some brokers from recommending a range of European stocks, although the "green" definition can be rather wide. Among others, James Capel promotes Netherlands-listed food group Wessanen because of its emphasis on health foods and "natural" products, and Nikko Securities is keen on France's Générale des Eaux because it includes water and waste management in a string of activities from construction to car park management and cable television.

Investment research in this field is likely to grow. Even in a country like West Germany, where environmentalism is nothing new, the climate is changing as the political establishment and industry catch up with popular sentiment. Dr Reinhard Fischer, of Paribas Capital Markets, whn has drawn up a German waste management portfolio, says: "Previously, environmental issues were viewed by German companies as a 'margin killer', but now they see the opportunities."

Dr Fischer expects Germany's first "pure play" in the environmental sector to be floated on the stock market this year or next in the form of BUS, a metal waste recycler owned by Metallgesellschaft.

Already, speculation about restructuring or new ventures in the environmental field has triggered buying on the German stock market. Deutsche Babcock, the engineering company which specialises in the desulphurisation of power station emissions, is attracting speculative demand amid talk that Hochtief, a building company expanding in the environmental business, is keen to buy a stake. Shares in Strabag, a construction company and waste disposal specialist, have shot up 80 per cent this year, helped in the past month by rumours of stake-building by Bouygues of France.

For the environmental purists, however, it is often a question of seeking out specialised companies like Tomra Systems of Norway. Tomra makes bottle collection machines that "read" the type of bottle with a laser beam and produce a receipt for the supermarket customer to take to a cashier for repayment.

Tomra's share price has climbed from a low of NKr7 at the start of last year to a high last month of NKr13.20, thanks to restructuring and to its position as a world leader in its niche market. It has a capitalisation of just NKr220m ($31m) on the small Oslo exchange. "It's a very interesting and very pertinent company, but not very big," says Ms Foster of BNP Securities. "But it could be a lot bigger."

ASIA PACIFIC

Investment trust buying supports recovery

Tokyo

A MEASURE of stability on the currency markets set the stage *for a moderate rebound* in Japanese equities yesterday, supported hy selective buying of specific issues from investment trust funds, *writes Michiyo Nakamoto in Tokyo.*

A higher yen in the morning helped lift spirits and equities took off to a good start, firming by nearly 300 points by the *morning close. The market's* energy seemed to wane by midday bnt buying from special investment trust funds helped bolster share prices and the Nikkei index finished up 220.29 points at 33,233.47.

During the day the index mnved between a high of 33,282.78 and a low of 33,007.52. Advances outnumbered declines by 533 to 341, with 193 issues unchanged. Turnover *remained at a low 683m shares,* although this was up on Monday's 454m. The Topix index of all listed shares gained 12.92 to 2,456.63 and in London the ISE/Nikkei 50 index rose 2.60 tn 1,957.

Special investment trust funds bought selectively to boost the value of their shareholdings, *which had plunged* as a result of the market's recent downturn. Investors also bought issuea such as large capital steels and constructinns, in part because they expected them to rebound after losing substantially in the past few weeks, said Mr Masami Okuma of UBS Phillips & Drew.

Another factor that encouraged buying was that dealers *were expected to step up their* sales efforts today – designated "accent day" in an effort to drum up activity. But even dealers were not as optimistic as usual and some described the market as going through a long and tiresome correction.

Among large capital issues, Mitsubishi Heavy Industries *topped the actives list* with 18.8m shares traded, firming Y30 to Y1,180. Kawasaki Heavy Industries gained Y50 to Y1,090 and Nippon Steel rose Y18 to Y834 in active trading. While tbese performances looked heartening, institutional investors saw the rises which they supported as merely a recovery to previous levels.

Among electricals, investors favoured the relatively large capital companies auch as Toshiba, Sharp and NEC, all of which were traded actively. Toshiba ranked second in volume with 18.1m shares and increased Y40 to Y1,410.

Issues that will benefit from capital investments remained in the spotlight, although those which have already enjoyed snbstantial gains were neglected in favour of relatively newer names.

Nikon, also considered a beneficiary of increased capital investment, surged on the strength of strong sales of a component in semiconductor production. It gained Y90 to a new high this year of Y1,620 but closed up Y60 at Y1,590.

Large-capital steels and con*structions* led gains in Osaka. The OSE average added 206.76 to 32,206.01.

Roundup

THERE were mixed performances in Asia Pacific, with Australia advancing, Singapore steady and Hnng Kong dull and weaker.

SINGAPORE investors continued to take profits while also buying selectively, and the market closed on a mixed note in subdued trading.

The *Straits Times industrial* index fell 1.28 to 1,303.12 while turnover fell to 65m shares from Monday's 88m.

Malaysian Resources was the most active stock with nearly 7m changing hands. It shed ½ cent to 19¼ cents.

Straits Steamship put on 8 cents to S$3.40 after announcing it will build a high-tech office block on a site bought from Singapore Tobacco, earn*ings from which are predicted* to boost the company's net asset value.

AUSTRALIA was pushed higher by buying by foreign investors and domestic institutions. *The All Ordinaries index* closed up 9.9 at 1,536.6.

A big loser was Hooker, the construction and property group, whose shares plunged to a five-year low, dnwn 35 cents to 64 cents, after it appealed to banks to keep credit lines open and unveiled plans for a debt moratorium. Another *property developer,* Girvan, fell 10 cents to 25 cents.

Total turnover was modest at 109m shares worth A$190m. Advances were led by News Corp and Brambles, each rising 30 cents to A$15.50 and A$13.40 respectively.

HONG KONG edged down in thin trade in the absence of fresh corporate or political news as the colony approaches *the holiday period.*

The Hang Seng index drifted 4.7 lower to 2,337.71 on turnover of HK$741m against HK$997m nn Friday. Turnover was at its lowest since China's pro-democracy movement took off more than two months ago.

Blue chips topped the active list with Swire Pacific A gaining 10 cents to HK$14.30.

SEOUL rose strongly in reaction to recect sharp falls, with the composite index gaining 11.58 to 907.14.

TAIPEI plunged, with brokers partly *blaming* the decline nn rumours that a large local brokerage had been conducting illegal trades. The weighted index shed 261.81 to 9,841.00.

SOUTH AFRICA

A STABLE bullion price helped gold shares *move off* Monday's easier levels and close firmer yesterday in quiet Johannesburg trading.

FT-ACTUARIES WORLD INDICES

Jointly compiled by *The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood* Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JUNE 19 1989						FRIDAY JUNE 16 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (86)	131.38	+0.0	125.75	115.87	−0.3	5.08	131.43	127.03	118.22	157.12	128.23	150.35
Austria (19)	121.98	+0.3	116.75	126.04	+0.1	2.07	121.59	117.51	125.92	124.16	92.84	87.04
Belgium (63)	128.25	+0.5	122.75	131.73	+0.0	4.17	127.60	123.32	131.69	137.10	125.58	122.19
Canada (124)	139.08	−0.1	133.12	120.75	+0.0	3.28	139.23	134.56	120.73	141.80	124.87	125.87
Denmark (38)	194.05	+0.2	185.73	202.63	−0.7	1.86	193.56	187.11	204.13	194.05	165.35	129.18
Finland (26)	141.21	+0.6	135.16	131.30	+0.3	1.60	140.41	135.71	130.97	159.18	125.81	138.58
France (128)	117.18	+0.7	112.14	123.04	−0.3	3.09	116.38	112.44	123.41	122.79	112.57	95.65
West Germany (100)	87.45	+2.9	83.70	89.70	+1.9	2.27	84.96	82.11	88.01	90.40	79.56	75.81
Hong Kong (49)	97.95	+0.0	93.75	97.93	+0.0	5.51	97.94	94.66	97.93	140.33	86.41	109.13
Ireland (17)	132.94	+0.6	127.24	138.81	−0.1	3.03	132.10	127.67	138.96	151.36	125.00	138.72
Italy (97)	83.21	+0.4	79.64	86.97	−0.4	2.50	82.86	80.08	89.35	86.66	74.97	72.41
Japan (455)	170.33	+0.9	163.03	155.48	+0.1	0.51	168.83	163.17	155.26	200.11	164.22	172.72
Malaysia (36)	179.77	+0.3	172.07	187.81	+0.4	2.56	179.16	173.18	187.10	185.03	143.35	148.42
Mexico (13)	247.51	−3.3	236.90	672.61	+1.2	0.75	255.88	247.31	664.45	255.88	153.32	179.35
Netherland (42)	118.74	+1.4	113.65	120.45	+0.5	4.29	117.07	113.14	119.82	122.22	110.63	105.01
New Zealand (24)	65.63	+0.1	62.81	61.13	+0.0	6.07	65.58	63.38	61.15	76.02	62.64	83.55
Norway (26)	172.86	+0.7	165.26	188.09	+0.2	1.58	171.42	165.67	187.81	198.39	139.92	123.39
Singapore (26)	159.90	+0.2	153.05	144.57	+0.2	1.92	159.57	154.22	144.26	181.98	124.57	122.27
South Africa (60)	141.88	+1.7	135.78	125.29	−1.1	4.28	139.45	134.78	126.74	144.86	115.35	130.76
Spain (43)	149.36	+2.7	142.96	141.55	+0.1	3.57	145.42	140.66	141.40	156.17	143.14	159.85
Sweden (35)	162.78	+0.1	155.80	160.73	−0.5	2.14	162.63	157.18	161.49	162.76	138.45	121.70
Switzerland (57)	78.04	+1.3	74.69	82.49	+0.4	2.47	77.05	74.46	82.18	79.76	67.81	81.13
United Kingdom (314)	137.86	+1.4	131.95	131.95	+0.4	4.42	135.94	131.38	131.38	153.33	133.28	136.76
USA (557)	131.29	+0.2	125.66	131.29	+0.2	3.41	131.09	126.70	131.09	133.36	112.13	109.58
Europe (1005)	116.46	+1.5	111.47	115.92	+0.4	3.55	114.79	110.94	115.41	121.70	112.83	108.47
Nordic (125)	158.46	+0.2	151.67	153.41	−0.4	1.86	158.06	152.77	154.07	158.46	137.95	116.83
Pacific Basin (676)	166.16	+0.8	159.03	151.84	+0.1	0.75	164.77	159.25	151.88	194.72	160.44	169.30
Euro−Pacific (1681)	146.36	+1.0	140.09	137.42	+0.2	1.66	144.85	140.00	137.12	164.22	141.56	144.97
North America (681)	131.67	+0.1	126.02	130.64	+0.1	3.41	131.49	127.08	130.45	133.73	112.79	110.45
Europe Ex. UK (691)	102.81	+1.5	98.41	106.00	+0.4	2.69	101.30	97.91	105.53	105.29	96.30	90.92
Pacific Ex. Japan (221)	116.09	+0.0	111.11	106.30	−0.1	4.91	116.07	112.18	106.44	137.66	111.93	128.13
World Ex. US (1878)	146.12	+1.0	139.86	136.94	+0.2	1.73	144.67	139.82	136.67	162.77	141.49	144.20
World Ex. UK (2121)	140.07	+0.6	134.07	135.32	+0.2	2.09	139.17	134.50	135.10	146.04	136.98	130.25
World Ex. So. Af. (2375)	139.85	+0.7	133.85	135.06	+0.2	2.29	138.86	134.21	134.80	146.65	136.87	130.81
World Ex. Japan (1980)	125.55	+0.8	120.17	124.59	+0.2	3.52	124.31	120.62	124.31	126.50	114.51	110.71
The World Index (2435)	139.86	+0.7	133.86	134.99	+0.2	2.30	138.86	134.21	134.74	146.51	136.68	130.81

Latest prices were unavailable for this edition. Hong Kong market closed June 19.
Constituent change: Delete:Kelly Douglas (Canada) (20/6/89).